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The Province of Alberta

PETROLEUM AND NATURAL GAS CONSERVATION BOARD

Application for Permission to Remove or cause to be removed
Natural Gas from the Province of Alberta, under the Provisions of the
Gas Resources Preservation Act by Western Pipe Lines.

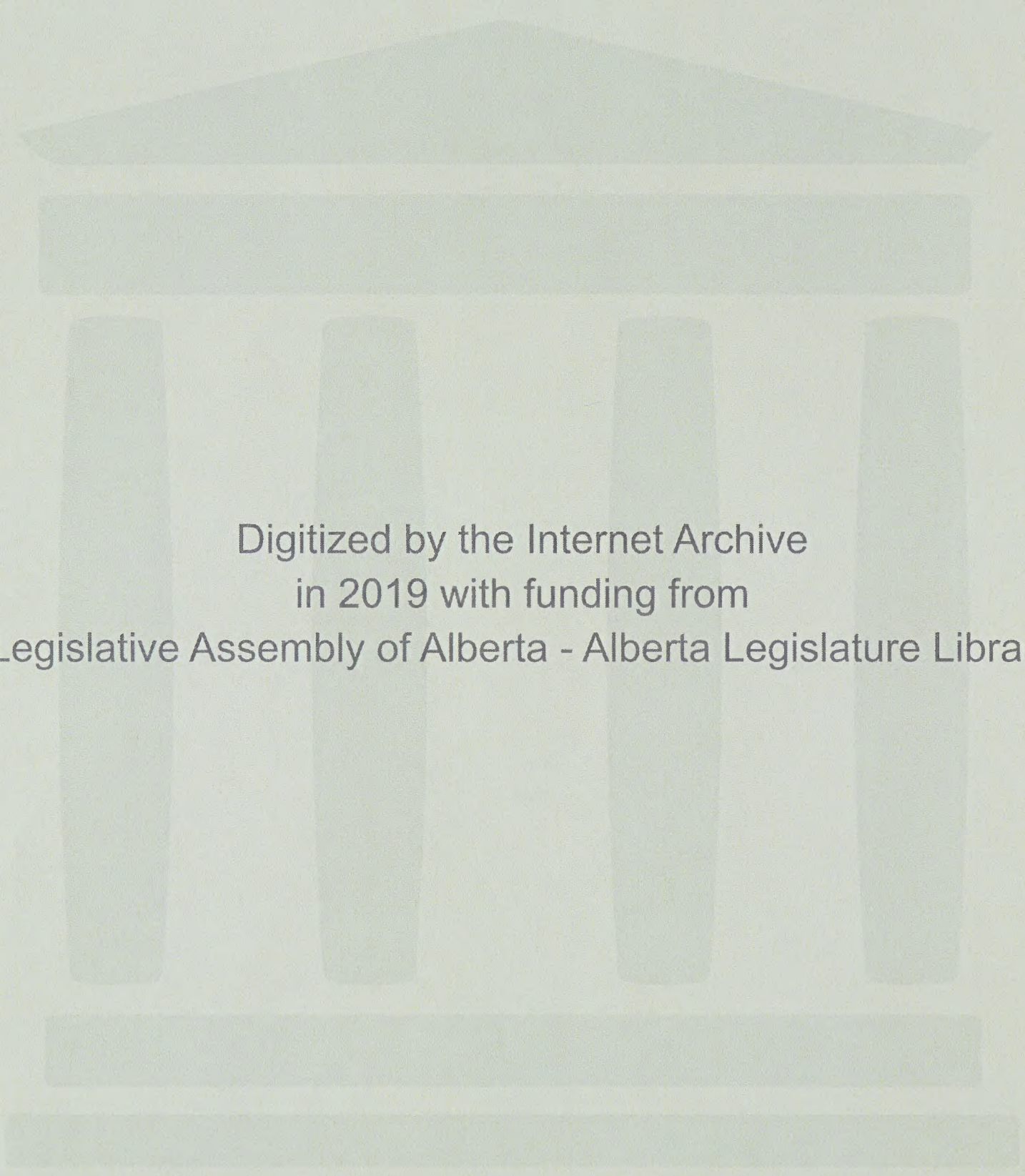
I. N. McKinnon Esq., Chairman

D. P. Goodall Esq.

Dr. G. W. Govier

Session: SEPTEMBER 26th, 1950.

Volume 2



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Argument on Motion by Mr. Martland.

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VOLUME 2.

SEPTEMBER 26th, 1950.

THE CHAIRMAN:

Mr. Martland, would you

like to speak on your motion?

MR. MARTLAND:

If I may, sir. If the

Board pleases, the nature of this motion and the reasons for it generally are set out in our letter to yourself dated August 29th, which the Board was good enough to circulate among the various interested parties. It came somewhat as a surprise yesterday to find that the motion had, as it were, been seconded by the Right Honourable Minister of Trade and Commerce, and if I might for a moment advert to that letter, which was read into the records yesterday, we have noted that it apparently arises as a result of a request for information received by the Minister from the Chief of the International Program of the United States Munitions Board enquiring as to the possibility of obtaining Alberta gas to meet fuel requirements in the Pacific Northwest area of the United States. And Mr. Howe's letter goes on to indicate his view as to the desirability of an early decision being reached as to the existence or otherwise of an exportable surplus of gas in this Province. We for Western Pipelines feel sure that the Minister did not intend to indicate to the Board what its view should be with regard to the existence of that surplus or not, and we also feel sure that he did not intend to indicate to the Board where that exportable surplus should be

Statement on Motion Picture Industry

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VOLUME 2

SEPTEMBER 1950

THE CHAIRMAN:

Let us speak on your motion

MR. WATKINS:

If I may, sir. It is

Board please, the nature of this motion and the reasons
for it generally are not out of the ordinary to yourself
dated August 25th, which the Board has also signed to
attest to among the various interested parties. It seems
convinced as a surprise yesterday to find that the motion
had, as it were, been accepted by the Board. However
Minister of Trade and Commerce, and if I might for a
moment return to that matter, which was read into the
records yesterday, we have noted that it apparently
arises as a result of a request for information received
by the Minister from the Chief of the International
Program of the United Nations Board regarding
the possibility of obtaining information as to meet
their needs in the Pacific Northwest area of the
United States. And Mr. Watkins, I am sure, goes on to indicate
his view as to the desirability of an early decision
being reached as to the evidence or otherwise of an
exportation of goods in this respect. We for
Western Industries feel that the Minister did not
intend to indicate to the Board what his view should be
with regard to the evidence of that evidence or not,
and we also feel that he did not intend to indicate
the Board that the evidence was sufficient to indicate

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allocated in the event that one is found to exist. We feel sure that he would not intend to overlook the fuel requirements of the people of Saskatchewan and of Manitoba. The letter does advert to the threat of competition from Texas gas in the Pacific Northwest market, and we would suggest that the Board will appreciate that a like threat exists with regard to a market in Minnesota. The Texas gas is somewhat closer to that area. We must face the possibility that if Texas gas did come to Minnesota it might conceivably be distributed also in Winnipeg, and that in that eventuality the possibility of Saskatchewan obtaining gas would seem to be very remote because a line from Alberta to Saskatchewan exclusively would not appear to be economical.

Now, to get back to the applications, sir. The Motion arises, as the letter indicates, as a result of the fact that there has been an increasing number of applications to this Board, which of necessity must occupy a very considerable amount of time if the same procedure is followed with respect to each of them as has been followed with regard to the two which have already been commenced. We also feel that all applicants for export are very vitally concerned of necessity. It is the main issue as to the existence or otherwise of an exportable surplus. You will have noted, sir, that in our letter we have not only stressed the desirability of ascertaining whether that surplus exists, we have also suggested with respect that if there is a surplus that the Board meet, with the approval of the

Argument on Motion by Mr. Martland.
by Mr. Fenerty.

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Alberta Government, to determine the conditions and provide those necessary to protect the interests of the people of Alberta and of Canada. And the letter from the Honourable Minister of Mines and Minerals read into the record yesterday refers to that necessity which we have very much in mind. And what we have in mind is protection to Alberta and Canadian markets both as to supply and as to price.

Our application, sir, also has made suggestion of a joint Hearing, and that suggestion is made entirely with a view, if possible, to saving time, that all of the evidence having to do with the existence of a surplus might perhaps be dealt with at one Hearing. We have a precedent for a somewhat similar circumstance in the case of the Dinning Commission. It is true there the Commission was not as to exportable surplus but as to existing reserves and future Alberta requirements, but what I would suggest is that, in the interests of saving time, perhaps a joint Hearing may serve to accomplish that purpose. That is all I have to say, sir.

MR. FENERTY: If the Board pleases, with reference to Mr. Martland's suggestion that it should in effect be a joint Hearing and that matters should be expedited as much as possible, I am in hearty agreement. I think we are all prepared to expedite matters and try to determine everything we can in a continuous Hearing and at as early a date as possible. With reference to two of his other suggestions, I have some misgivings.

Statement on Motion by Mr. Tupper
of Mr. Tupper.

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Alberta Government, to determine the conditions and
provide those necessary to protect the interests of the
people of Alberta and of Canada. And the latter from
the Honorable Minister of Mines and Technical Surveys
the record yesterday refers to that necessity which we
have very much in mind. And what we have in mind is
protection to Alberta and Canadian workers both as to
supply and as to price.

Our application, etc., also
has made suggestion of a Joint Hearing, and that suggests
it is made entirely with a view, if possible, to having
that all of the evidence before us with the
evidence of a hearing might perhaps be dealt with at one
Hearing. We have a precedent for a somewhat similar
arrangement in the case of the Mining Commission. In
a time when the Commission was not as responsible
as it is but as to existing records and future records
regarding it, but what I would suggest is that, in the
interests of saving time, perhaps a Joint Hearing may
be to accomplish that purpose. That is all I have
to say, Mr.

MR. TUPPER:
If the Board please, with
reference to Mr. Tupper's suggestion that it should be
effect as a Joint Hearing and that matters should be ex-
pedited as much as possible, I am in hearty agreement.
I think we are all prepared to expedite matters and try
to determine everything we can in a consolidated Hearing
and as early a date as possible. With reference to
two of his other suggestions, I have some suggestions.

Argument on Motion by Mr. Fenerty.

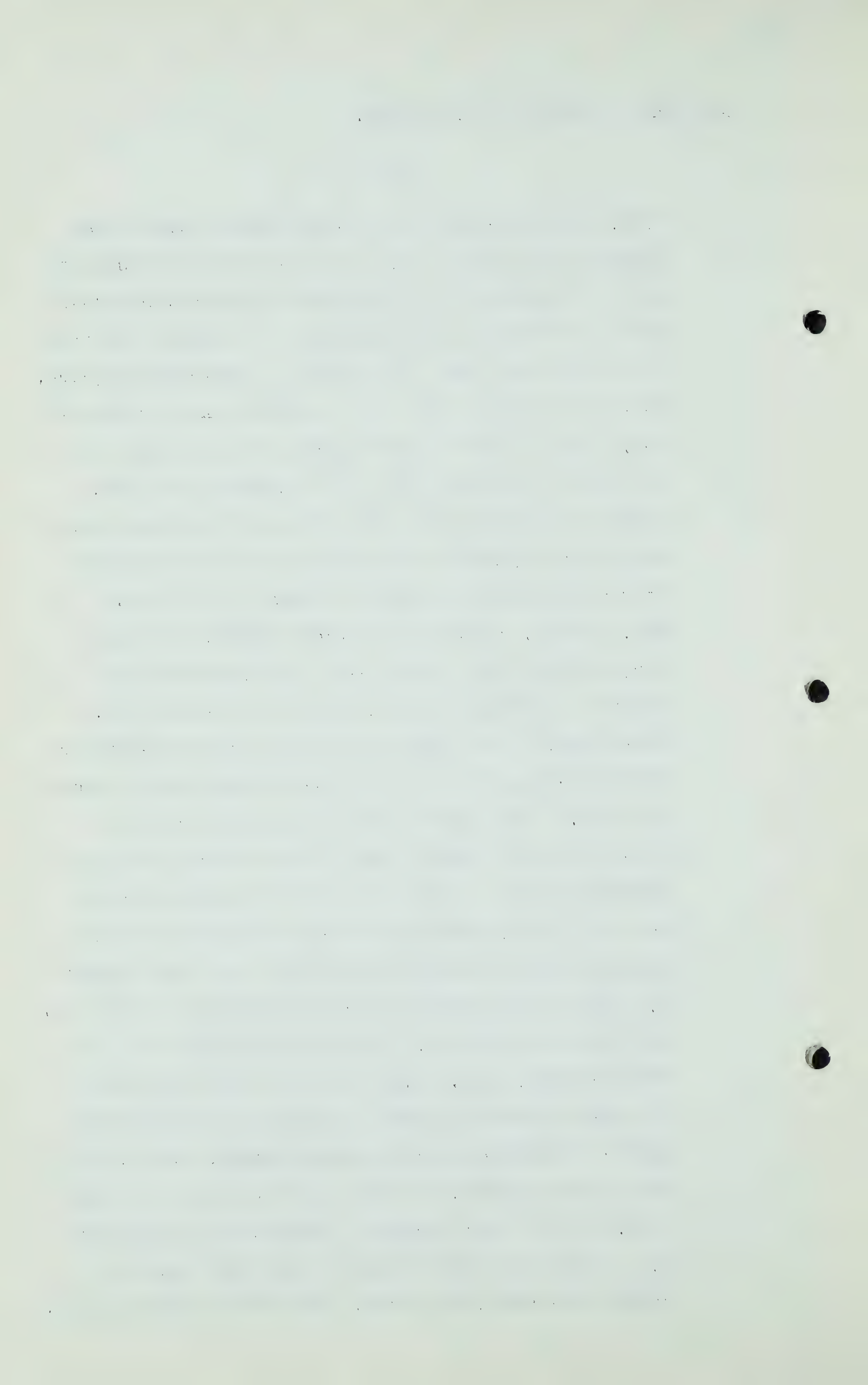
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As the Board knows, I have not taken any active part on behalf of the consumers in this controversy as to routes, northern or southern routes, and costs of the various routes. In fact, I do not think I have asked a question on any of those points, but I have some comments to make, which I hope may be of some value to the Board, in that connection, and that is as follows: It does seem to me that the suggestion that routes should be left to the Board of Transport Commissioners, although they would determine them in the last instance, is fraught with a lot of dangers that have not been anticipated. Now, while I recognize that they will determine the routes, I take it that it is quite within the competence of this Board to impose conditions under which export permits will be granted, and in effect, designate a route as one of those conditions. That power could impose that route. The reason I suggest that routes - - although I do not intend to take a part in discussion of routes - - may be of vital interest to this Board, the Government and the well owner, is that if there be any difference in costs, and after hearing experts I am quite unable as a mere layman to figure out what the differences, if any, are; if there be any differences in costs, and there may be, that is going to affect what the well owner gets for his gas, what the Government gets in royalty. At least, as far as Westcoast Transportation is concerned we have had it made abundantly clear to us that gas to be laid down in Portland and Seattle must meet competitive fuel oil, water borne competitive transportation, fuel oil water

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borne, and my recollection is that meant a fairly low figure at the Coast. Now, if it costs more to transport gas to the gate of the distribution system and you still have to meet those fixed figures, it is obvious that the well owner gets less. It has got to come from some place, and the Government gets less in royalty. As a matter of fact, while I am not stressing the point, it might well be from the point of view of the consumer in Alberta, strange as it may seem, even though my friends may smile, that a more expensive price might be to their immediate benefit although no economic loss can be justified. In that, I think, we will be on common ground. I do not think anybody will dispute that the manufacturer in Alberta is entitled to get his gas at the same price, Alberta gas, at the same price as any other manufacturer elsewhere can get it less the intermediate cost of transportation. That has been the rule applied against Alberta for many years, from the East and the South and everywhere else. I think this Board is agreed with me that the time has come when we have something that the manufacturers in Alberta are entitled to get the benefit of, which I say involves the same cost, as the manufacturer in Portland and Seattle, less the intermediate cost of transportation, gets. And it follows from that that if the price to the well owner is going to be decreased by greater intermediate costs to manufacuters, that Alberta will get the benefit, but that is not the main consideration, and it is not perhaps a proper way of looking at it. It is just a suggestion as to why this Board is vitally concerned with routes, whatever the result may be.

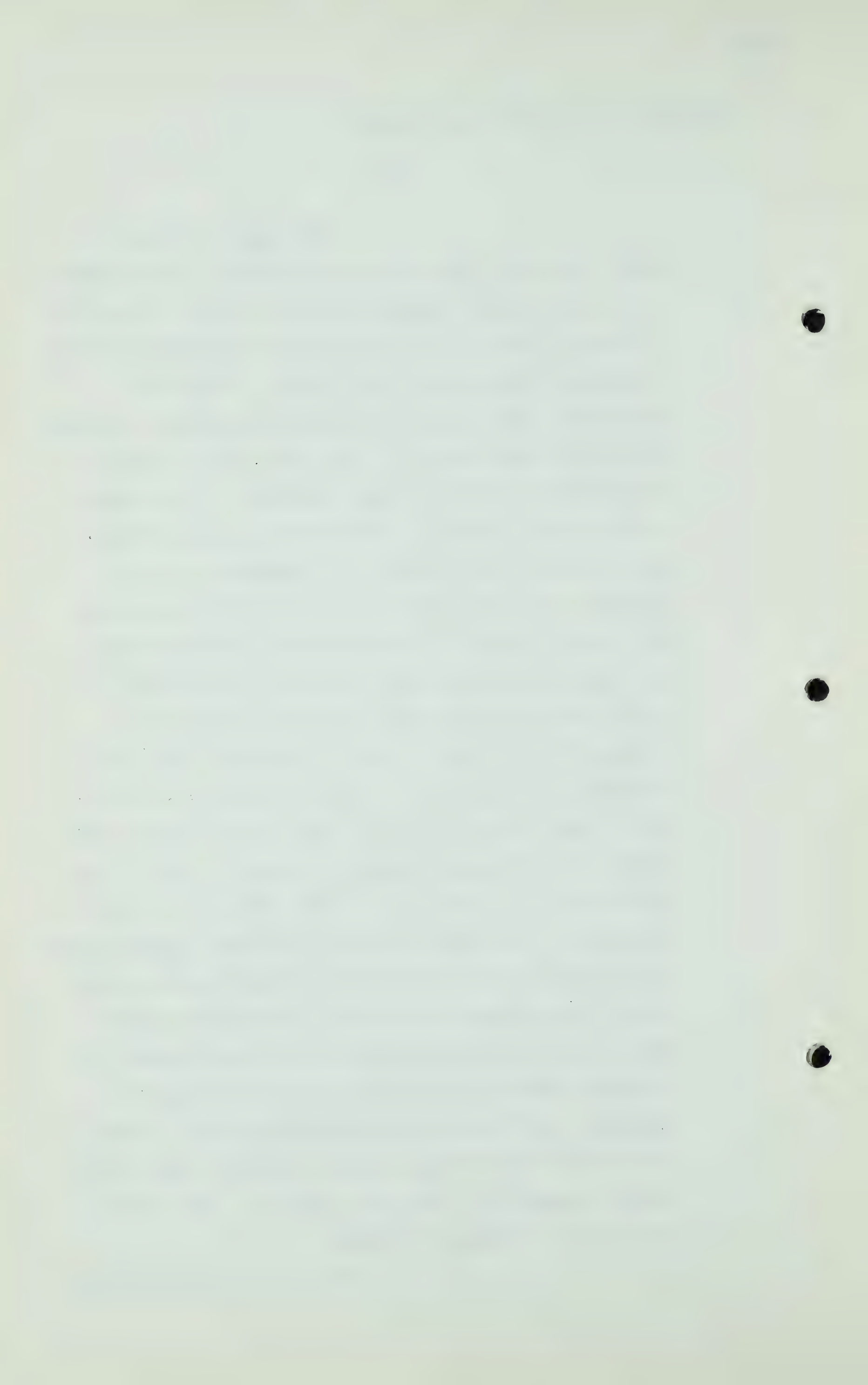


Argument on Motion by Mr. Fenerty.

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Then again, I take it there is another reason why the Board will be concerned with routes, that assuming there is export - - and for the moment this is not on my friend's application, I am referring to Westcoast because there is where the competition comes in as to alternative routes. I am just dealing with the other two, not yours, at the moment. It may be that the route will determine, I am speaking of Westcoast, assuming a northern and southern route, will determine the necessity or otherwise of a grid system. There is going to be a lot of talk about that and so on. Perhaps our engineers and geologists may get together on that, and if so, that may relieve the Board from determining these matters, but I see no evidence of it so far. It may be that the route will determine the necessity or otherwise of a grid system, and if that is so, it follows that the cost of the grid system is a necessary incident of export. That is just plain logic. If that is so it will follow if the grid system is a necessity the cost of the grid system should be borne by export. That is an important matter, certainly, for consumers in Alberta, particularly when we find that all of the evidence is now being directed to a 20-year amortization period for bonds of export companies, and it would be a disastrous thing if once you have not your 20-year period, you do not have anything to back it up, the grid system is left to be paid for by consumers in Alberta.

Now, those are just some



Argument on Motion by Mr. Fenerty.

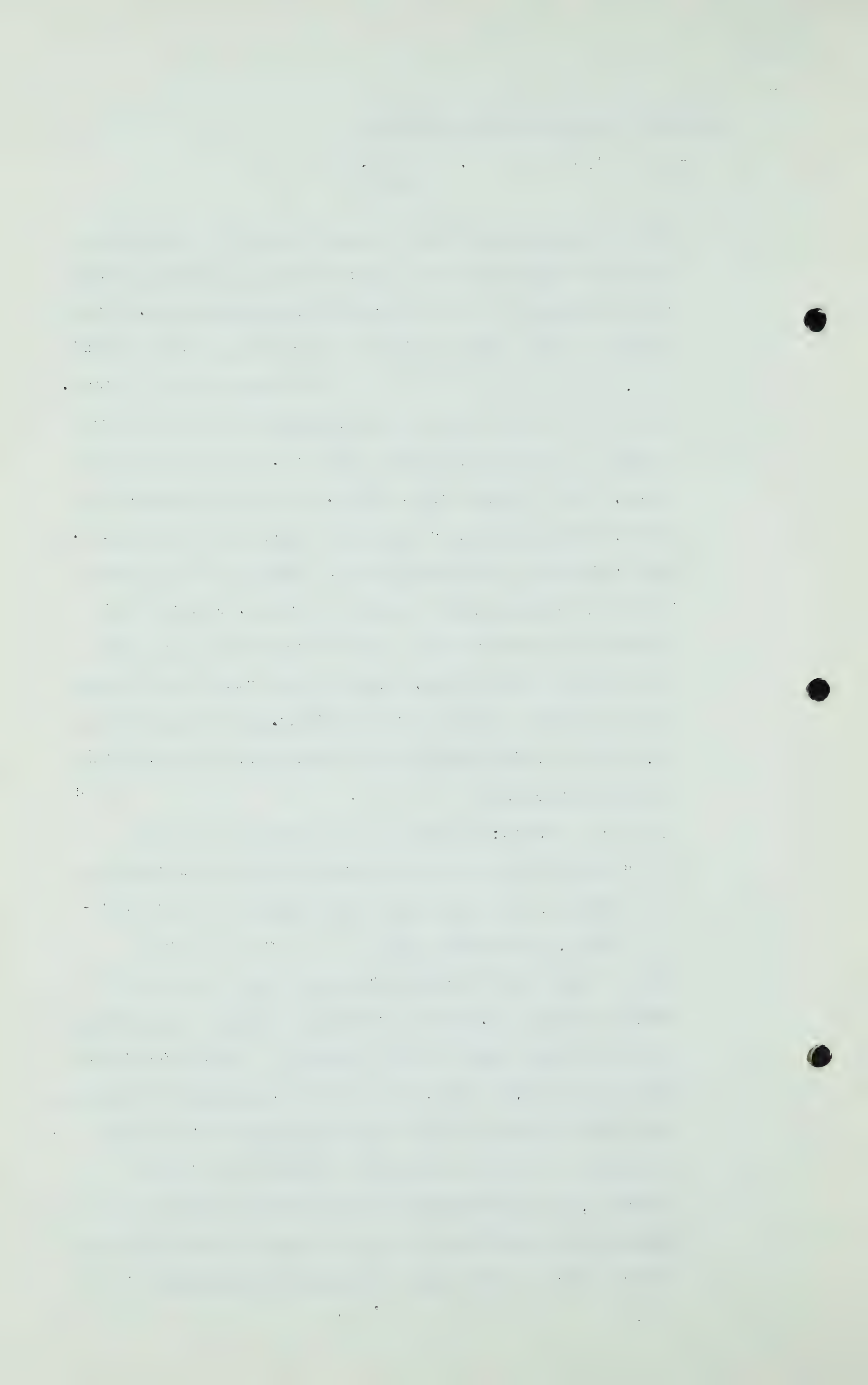
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of the suggestions why it seems to me it is essential for the Board to go into some of those questions. How you are going to do it without discussing routes I don't know. I have said as much as I am going to say on that.

I do want to say a word or two on the other part of my argument, if I can find my notes. I had them a minute ago. I can not find those notes, but I think I can shorten it by not having them. With reference to the suggestion that the first point to be determined is the exportable surplus, I agree with that if it means what I hope it means but which I am afraid it does not mean. What I am afraid of is that my friend is driving at just what Mr. Lewis was driving at, at least, I think he was driving at, which we will find out on cross-examination, on page 12 of his report in which he said:

" The gas reserves now committed to market within Alberta are in excess of 30 years requirements, based on an estimated demand in 1960 of 78 billion cubic feet."

Now, I take it Mr. Lewis arrives at this surplus by taking all gas reserves in the year and all requirements in those areas, and if, for instance, I will just use Medicine Hat for the moment without reference to figures, and when he came to deal with the Calgary area, for instance, he found there was a surplus of so many million feet over and above the 30-year requirements for Medicine Hat and that will go to make up the deficit if there is any in the area allocated to Calgary.

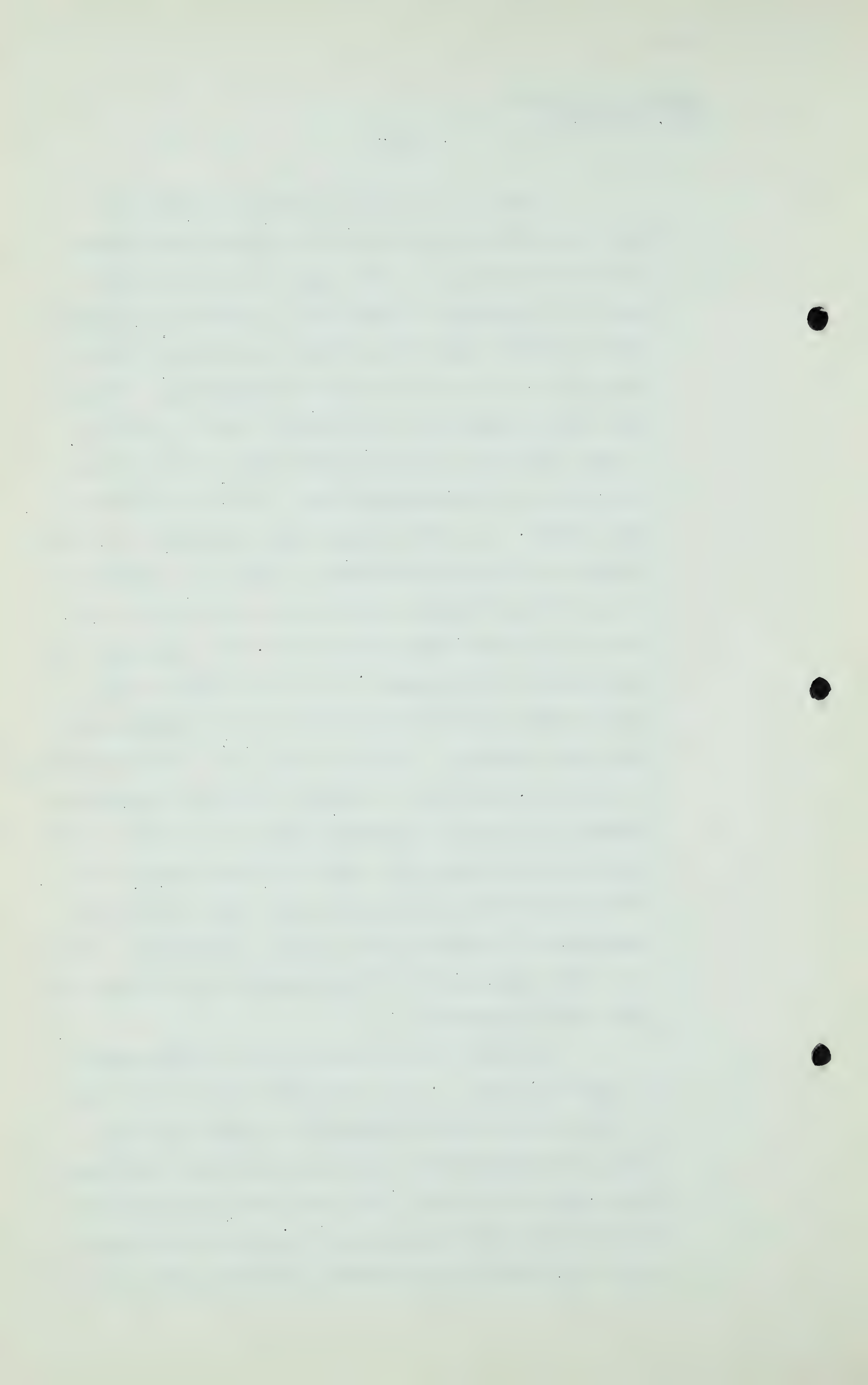


Argument on Motion
by Mr. Fenerty

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Now, if my friend is asking the Board to make any finding on the over-all surplus from contentions as established by the report here that areas should be allocated or dedicated to certain consumption, then I say the result is entirely misleading. While I agree that the reserves should be determined, I submit that they can and must be determined only in relation to each area served and areas allocated to that area, and we are not concerned with any over-all reserves of those areas. It does not make the slightest bit of difference to the City of Calgary if the City of Medicine Hat and its contiguous territory has 10 billion cubic feet or any other billion cubic feet over and above its requirements for 30 years. It is of no value to us unless export is going to pay the cost of transporting that gas to Calgary. And so I say, and without labouring it farther, that while we should undoubtedly determine reserves, we should determine them on the basis of the requirements in each area, and the allocations to it rather than have anything to do with the over-all picture which is completely and totally misleading, both as to the requirements of any community and the cost of gas to that community.

And then one more word about the Honourable Mr. Howe's letter. I can understand quite fully why the United States Munitions Board is deeply concerned about the availability of gas for the Pacific Northwest during periods of war; and I can understand why the United States Munitions Board, as the evidence indicates, my friend's own evidence, while we have a lot of



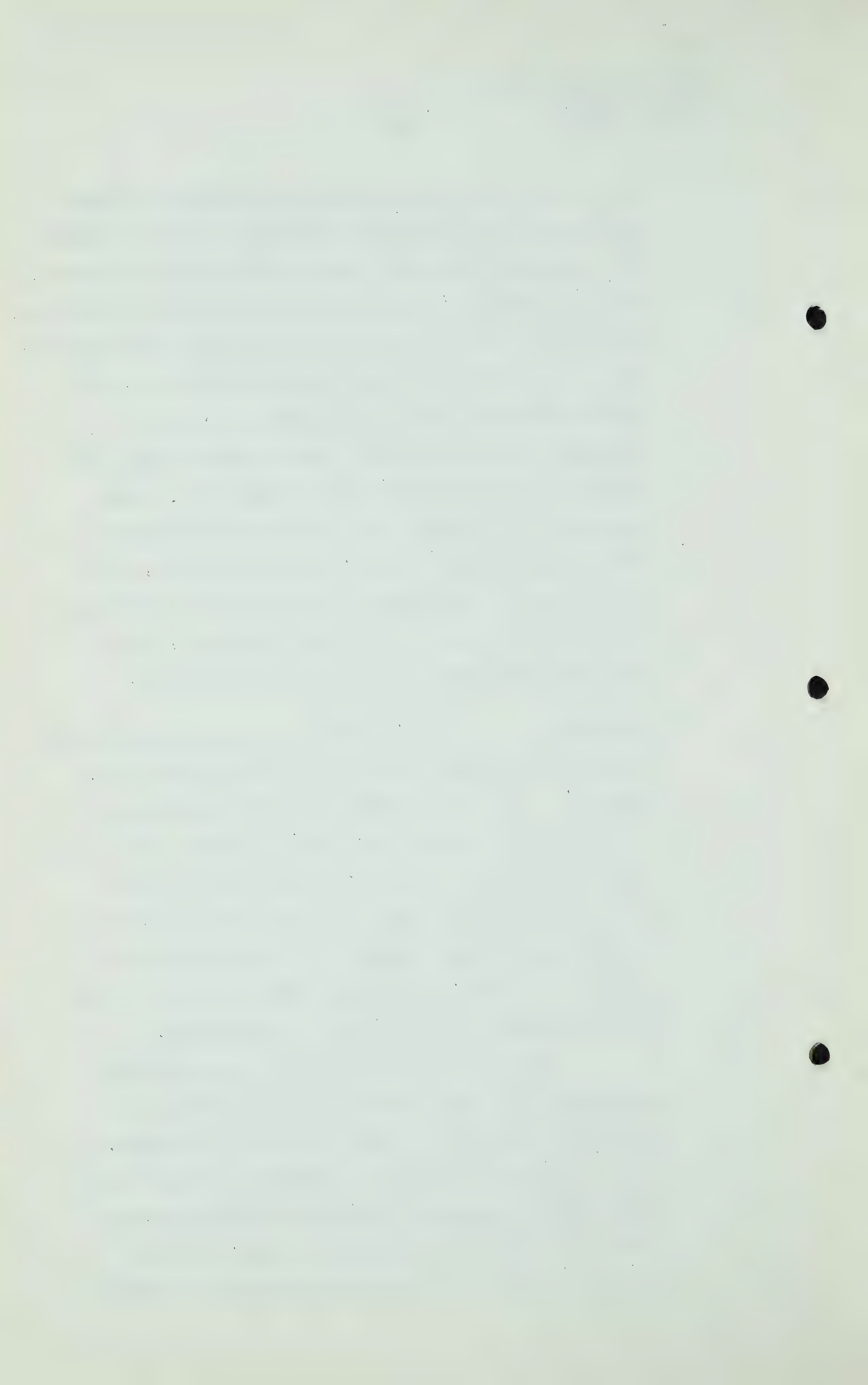
Argument on Motion
by Mr. Fenerty
By Mr. Nolan

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gas, we can never hope to equal the surplus in Texas, the United States Munitions Board may desire to conserve that Texas gas for future defence and war requirements, which, apparently, now stretch out indefinitely before us, and take gas from a foreign source, have it made available to protect the American Pacific Northwest, but I cannot understand why the Honourable Mr. Howe is apparently so concerned that those reserves which are equally valuable for war, and otherwise for Canada, should be made available to the Pacific Northwest if there is this danger of war. And in closing, I can only say that I never saw a more admirable letter than the reply which was sent by this Government, which fully and completely answered those suggestions.

MR.NOLAN: Mr. Chairman: I would like to say a word about the matter which has been raised by Mr. Martland. As I intimated to the Board yesterday, I do not intend to discuss Mr. Howe's letter or the letter addressed to the Board by Mr. Tanner, but I would like to say a word or two about the matters raised by Mr. Martland, because we have had the advantage of perusing his letter, which was forwarded to us by the Board and have given it our best consideration.

We feel, sir, that the hearings should be accelerated and that everything should be done to bring this matter to a finality and to a conclusion. We are in accord with the suggestion that there be a consolidated hearing and we agree that that hearing should deal with and only with the matter of the reserves. We feel that applicants should not only be

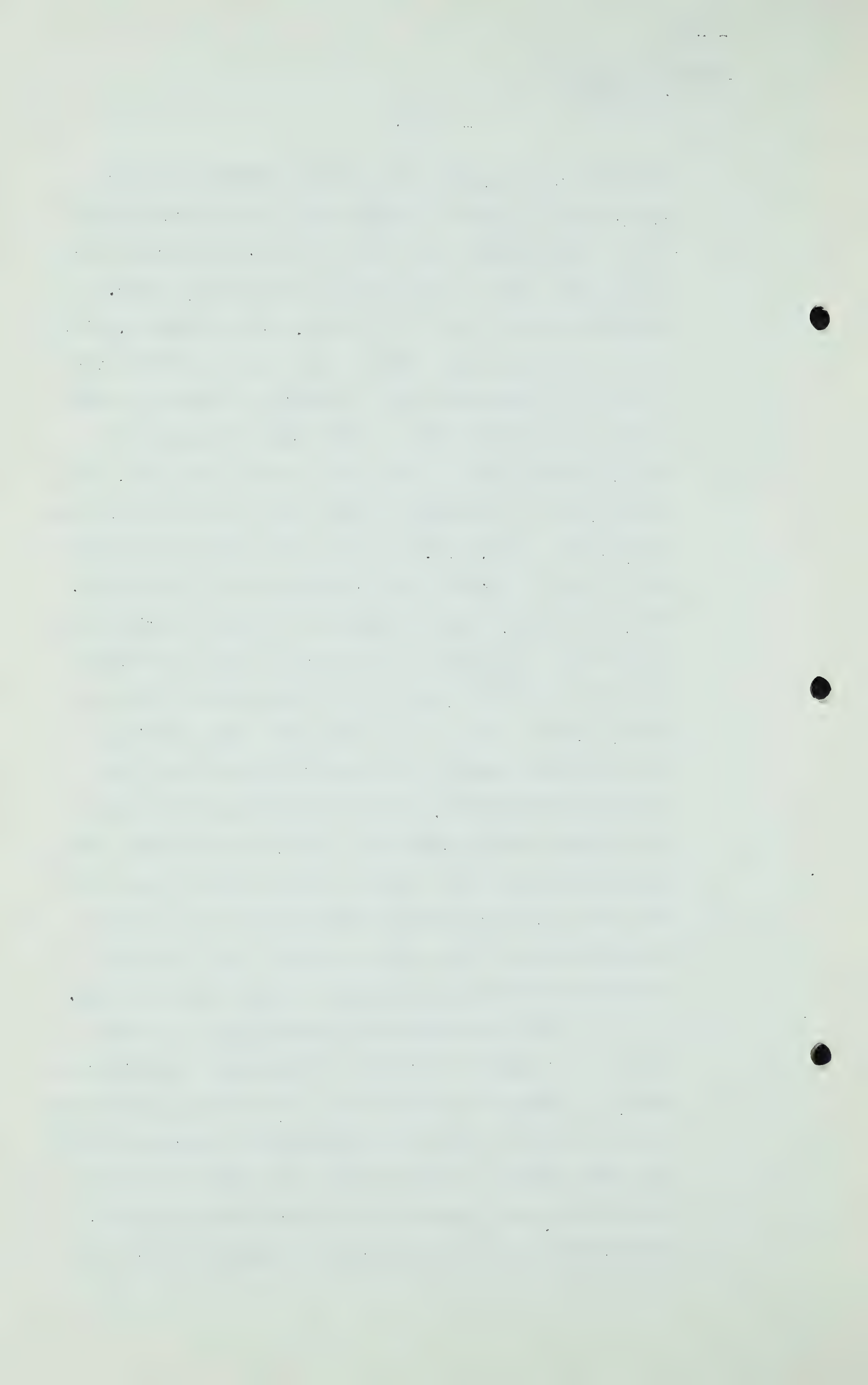


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prevented from leading any further evidence on other matters but it should be made clear to them that there is no requirement upon them of any sort to adduce evidence other than on the question of reserves, as Mr. Martland has set out in his letter. The danger is, sir, if we do not shut the door in the face of further evidence that applicants will be adducing evidence on this point and on that point, it may become necessary to cross-examine them on this point and on that point, and it may also be necessary to call other evidence to refute them, and I think, sir, that the time has come now when we have got to bring these proceedings to a conclusion. That, of course, applies equally to people who will come in now with new applications because there is a rumour at least of another application being placed before the Board. And it seems to us that those who come in at this 11th hour should not be permitted to delay these matters unnecessarily. They were well aware of these proceedings being carried on, they were well aware that applications had been made by other companies, and they were well aware that those applications were, in some instances, over a year old. And so I say they must take their chances to get ready for this joint hearing.

Now, as to when that hearing can be brought about, if I may be permitted to make some suggestions on that. I think it should be not later than a month from now. If that is done, the group whom I represent would be quite willing to give up the time which has been allocated to them, because, as the Board will remember, we were given a time commencing on Monday, the 23rd of



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by Mr. Nolan

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October, to put in the balance of evidence that might be required, and it might assist if we were to give up that time and allow it to be used for a joint hearing. That is only a suggestion that we make. We are completely in the hands of the Board but we wanted to show our willingness on that point.

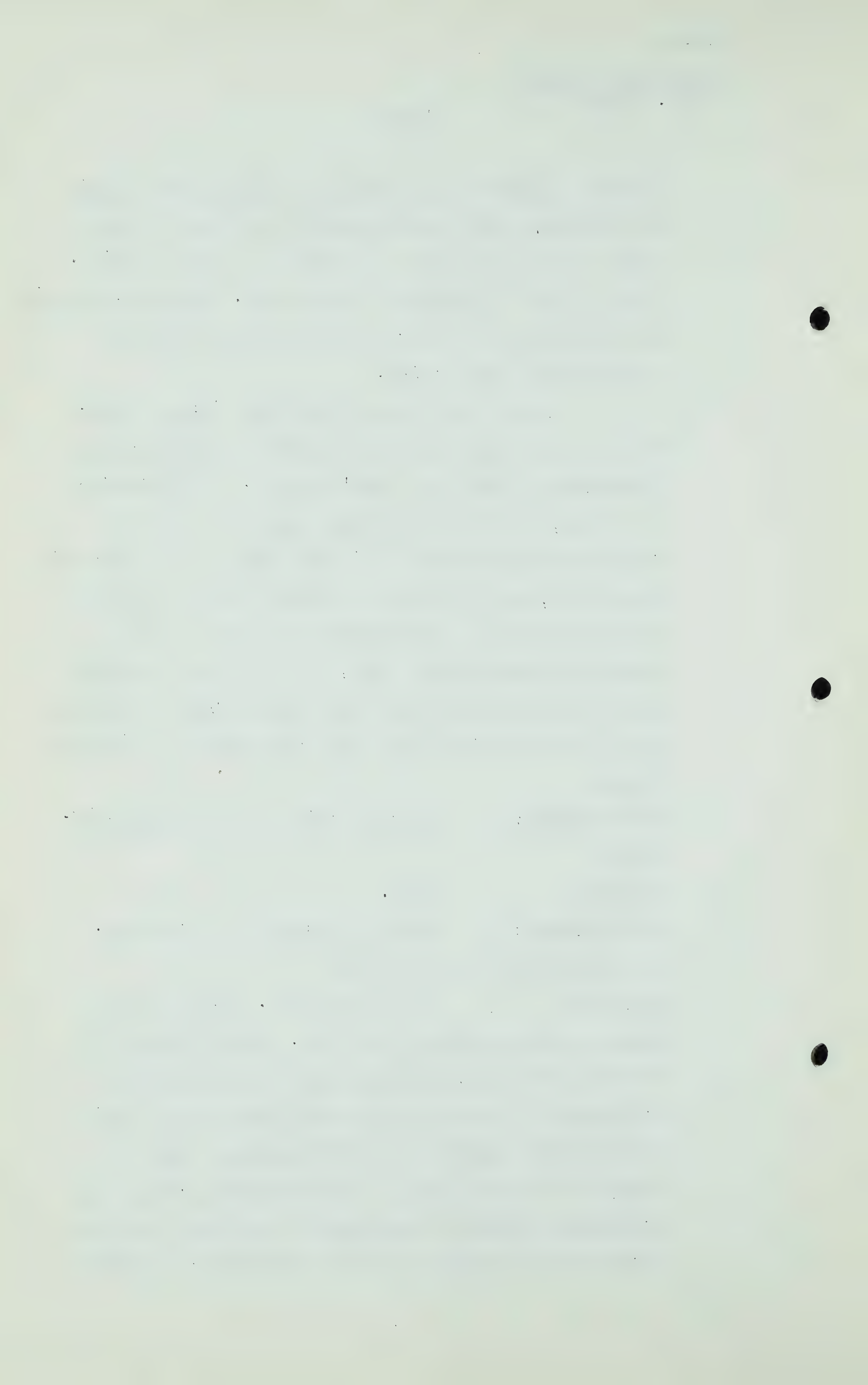
I have only one or two other things to say. One is that since we have met before we have had the advantage of seeing Dr. Hume's report. That report, of course, was a very carefully prepared document by an impartial gentleman who is in the employ of the Dominion Government, and it seems to us that even the question of reserves can be dealt with very quickly because, I venture to suggest that some, if not all, of the doubts as to the existence of an exportable surplus of natural gas in this Province will have been removed by the Hume Report.

THE CHAIRMAN: Might I ask you one question, Mr. Nolan:

MR. NOLAN: Yes.

THE CHAIRMAN: When you speak about reserves, do you include deliverabilities?

MR. NOLAN: Yes, I do, sir. And I am only going to say one thing more, sir. Some time ago the Board suggested or intimated that it would extend an invitation to producers to come forward and to give the Board the benefit of their experience, not in support of or as a part of any application, but as an independent group of companies or individuals who are simply coming forward to assist the Board. I venture



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to suggest that invitation should be extended even though we are consolidating our hearings and even though we are doing our best to accelerate these proceedings. That is all I have to say, Gentlemen.

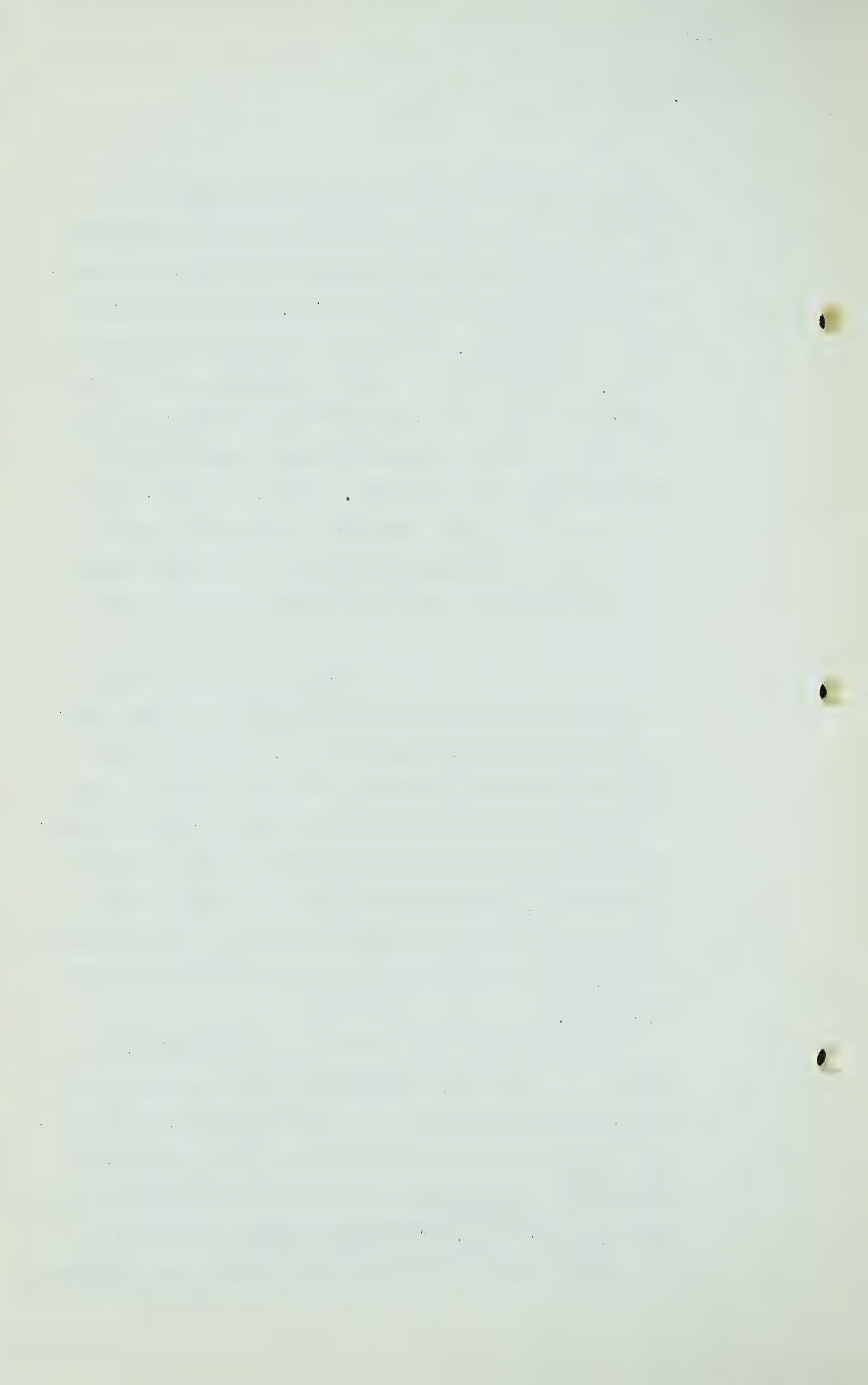
MR. McDONALD: Mr. Chairman: If I might state the position of my clients, and that is this, that they support the motion made by Mr. Martland. I would like to point out, however, that we must read carefully the statements made by Mr. Manning in the Legislature at the last session, which is referred to in Mr. Tanner's letter, and I do not think that these proceedings can be carried on without taking into account all of the requirements that the Government has therein set out. I think the evidence adduced in these hearings to be useful to the Government of Alberta must be sufficient so that the Government can carry out the policy which it has laid down. Now, to that end I am going to suggest this, much along the lines Mr. Nolan did, that the question of reserves, which he has amplified, as I understand it from your question, to include deliverability, which in itself also brings in the question of the Alberta situation, which Mr. Fenerty is so interested in. Now, I do not think we can avoid those three matters whether individually or collectively.

With regard to the matter of routes - routes, design of pipeline and costs, it appears to me that the wording of the letter is significant, and is what we should have, that is, that these should be curtailed. Now, my suggestion is this, that to provide Mr. Fenerty, the Government of Alberta, and the people

of the Province with some idea of the intentions of these different applicants, that they should each file their reports from their engineers with regard to route, with regard to design of pipe line, and with regard to costs and markets. They could be filed, as I suggest, and I, for one, would be glad to undertake not to cross-examine or raise them any further in the Hearing, but they would stand on the professional standing of the engineers who have made them. They, at least, would be informative to the Board and to the public, and I think that is something that should be done and should be required by the Board with regard to all the applicants.

In addition to that, I think also that the parties interested should give some indication of financial responsibility. By that I mean give some indication that they have the support of more or less reputable financial houses with regard to their proposed undertaking, with no intention again of cross-examination, or anything more than a reference to the documents themselves in argument, but have the information for the Board and the Government and the people of the Province.

Arriving at that point, sir, it seems to me that due consideration must be given to the position of Alberta gas on the North American Continent. We have assumed up until the month of June that Alberta was going to have a market of its own for its gas if, as and when produced. We now find that the energetic and the capable engineers of the United States think otherwise,

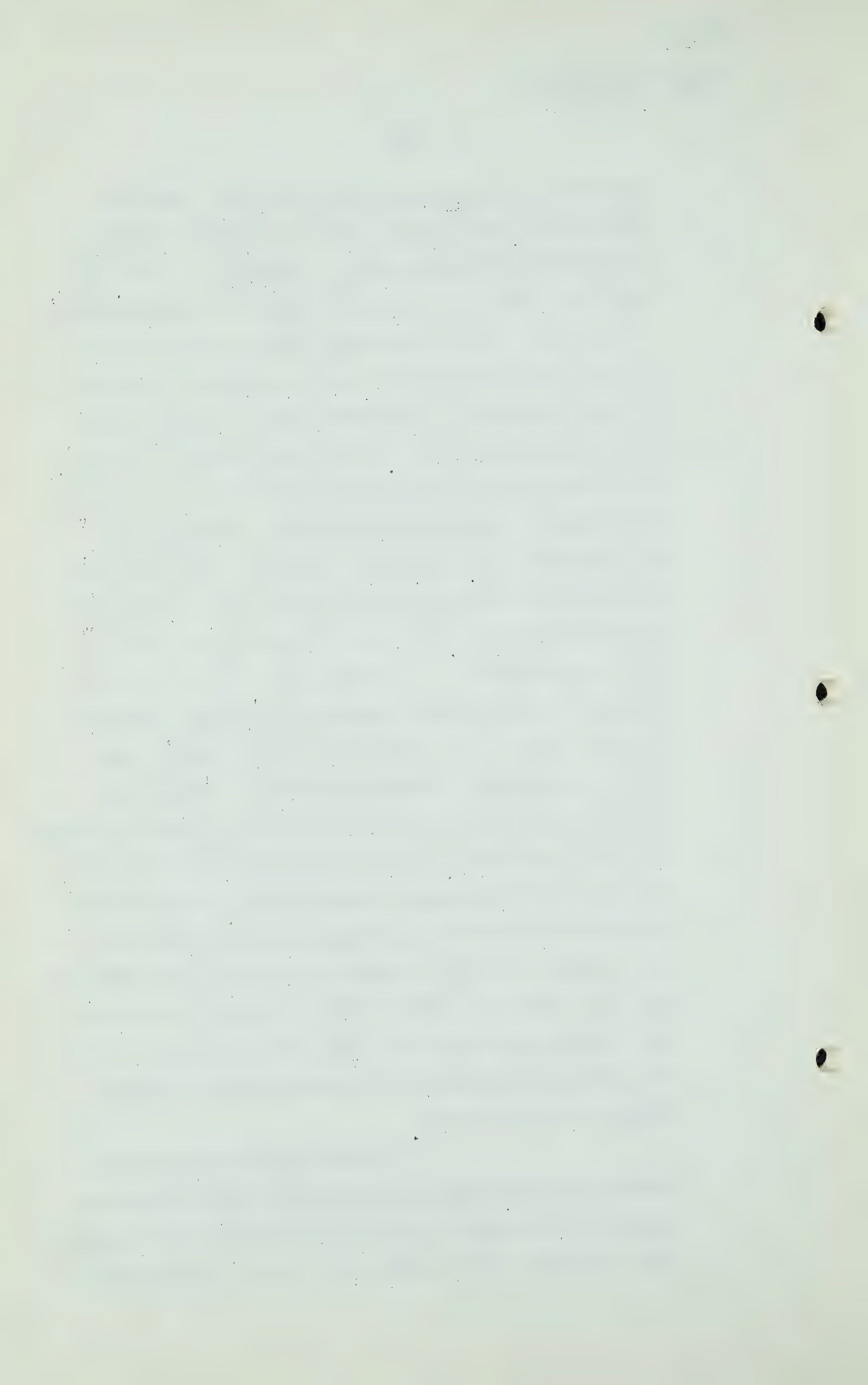


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by Mr. McDonald

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and they have a surplus of gas in the Gulf Coast of Texas which, they indicate, can be delivered in the market that we thought would be available to us. Now, I feel that that is not an idle threat to our situation here at all. It is something that is practical from an engineering standpoint, that is supported by people who have built pipe lines previously of equal length, and of equal difficulty. And I think we should bear in mind that if we are going to do our duty to the Province of Alberta we should decide now what our surplus is. My suggestion is, sir, that we continue right now with the evidence of the witnesses who are here for the Western Pipelines, Mr. Lewis and his associates, and that we then proceed again on October 9th, the date of the hearing for the Prairie Transmission Company, with the evidence that is to be adduced by that company, and that we immediately follow then with the evidence of all other parties who are interested in the matters before the Board, and also, I hope, the evidence of the Board's engineers following immediately thereon, so that within the month of October all of these hearings would have been completed insofar as the hearings are concerned. For my client I will say that we will be prepared to proceed the following week and stay with the matter right until the finish on any branch of the case which the Board desires to have covered.

I again emphasize that these matters that Mr. Martland refers to as being curtailed should be curtailed to the extent of filing the documents and thereafter cross-examination or any elucidation



Argument on Motion
by Mr. S. B. Smith

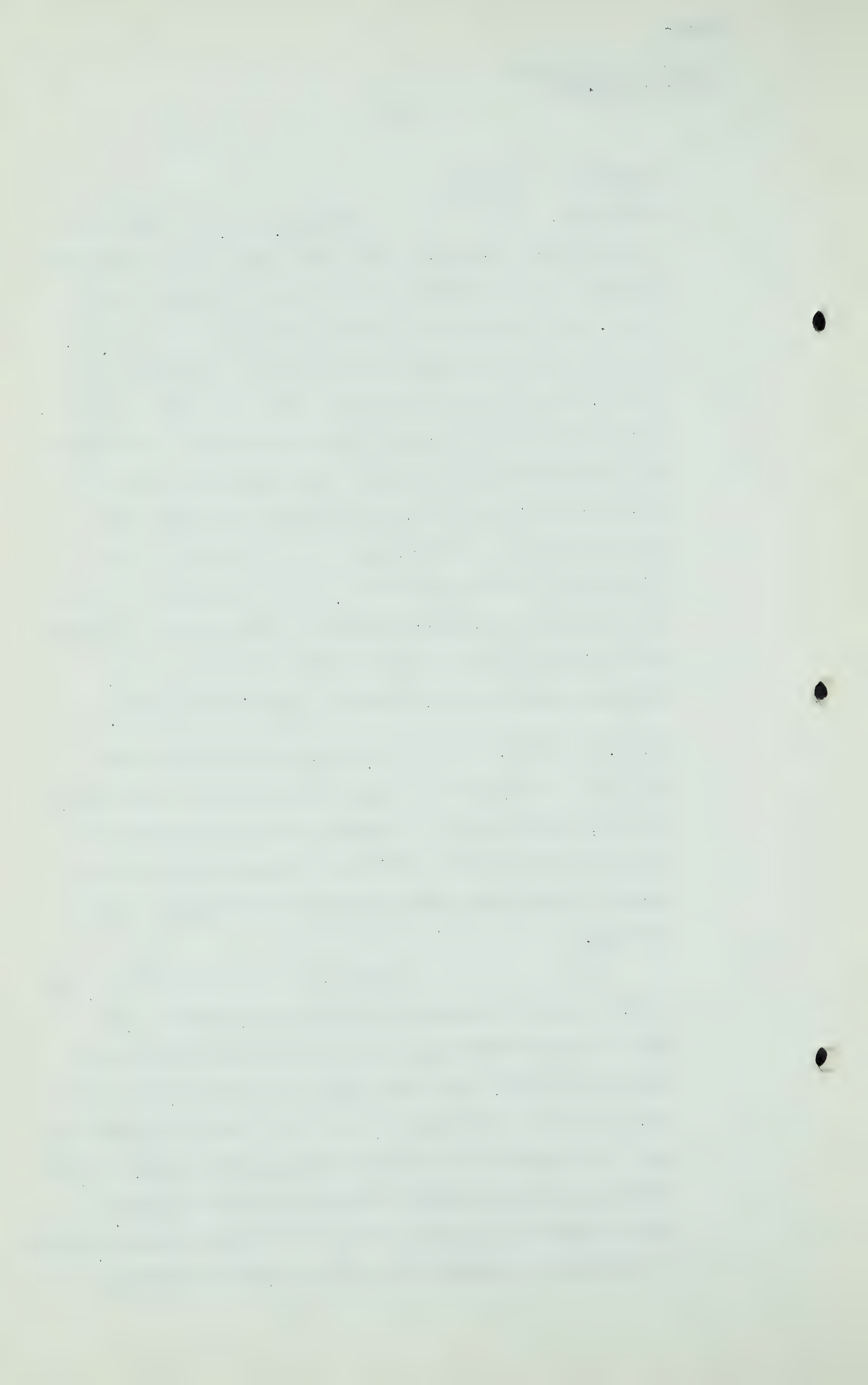
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should be curtailed.

MR. NOLAN: I wonder, sir, if I might say one word with respect to what Mr. McDonald has told the Board? I do not want to get into any argument about this. But there is one thing I would like to say. We realize fully the danger of the threat from the Texas field, but we also realize that the only way to meet that threat is by bringing these proceedings to a close by speedy action, and we are very much afraid that if Mr. McDonald's plan were carried out and people are permitted to put in evidence on other matters by way of exhibits, or any other way, it is only going to lead to more cross-examination which is only going to lead to more evidence, and in the end will result in a full hearing, which we are trying to avoid at this time.

MR. S. B. SMITH: Mr. Chairman and Gentlemen: If I may, I desire to go into the matters in some detail because, with respect, I suggest the position that now falls to the Board to decide is perhaps one of the most important decisions which has arisen throughout these hearings.

I am going to go over the record a bit, because I suggest the matters to which I will refer have a bearing upon the question that the Board has now to decide, and the record to which I will refer will, I think, bear out the view that I am now suggesting that the companies I represent here, namely, Prairie Pipe Lines Limited and Prairie Transmission Lines Limited, took a position seven months ago that these hearings should be shortened by immediately getting down to consider



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solely the evidence relating to the reserves of Alberta, the needs of Alberta, and, therefore, the question of whether there was an exportable surplus, and that we should later deal with the evidence as to designs of pipe lines, routes and all those various matters.

Now, so as to make our position plain, I am going to read from the record, I am going to refer to the record, because, as I have suggested, we consider these matters of such very great importance that I would like to go back over the record. Our position, the position of the Prairie Company, has been consistent throughout. In February and in June and throughout, and the position we take today, is entirely consistent with the position we took earlier. There have, however, been some astonishing reversals in the position of some of the other companies. I am not going to read everything that I said back in February or in June, but I do desire to refer to and read a few sentences to bring the Board's mind back to the position we took at that time. At Page 432 of Volume 8, I said,

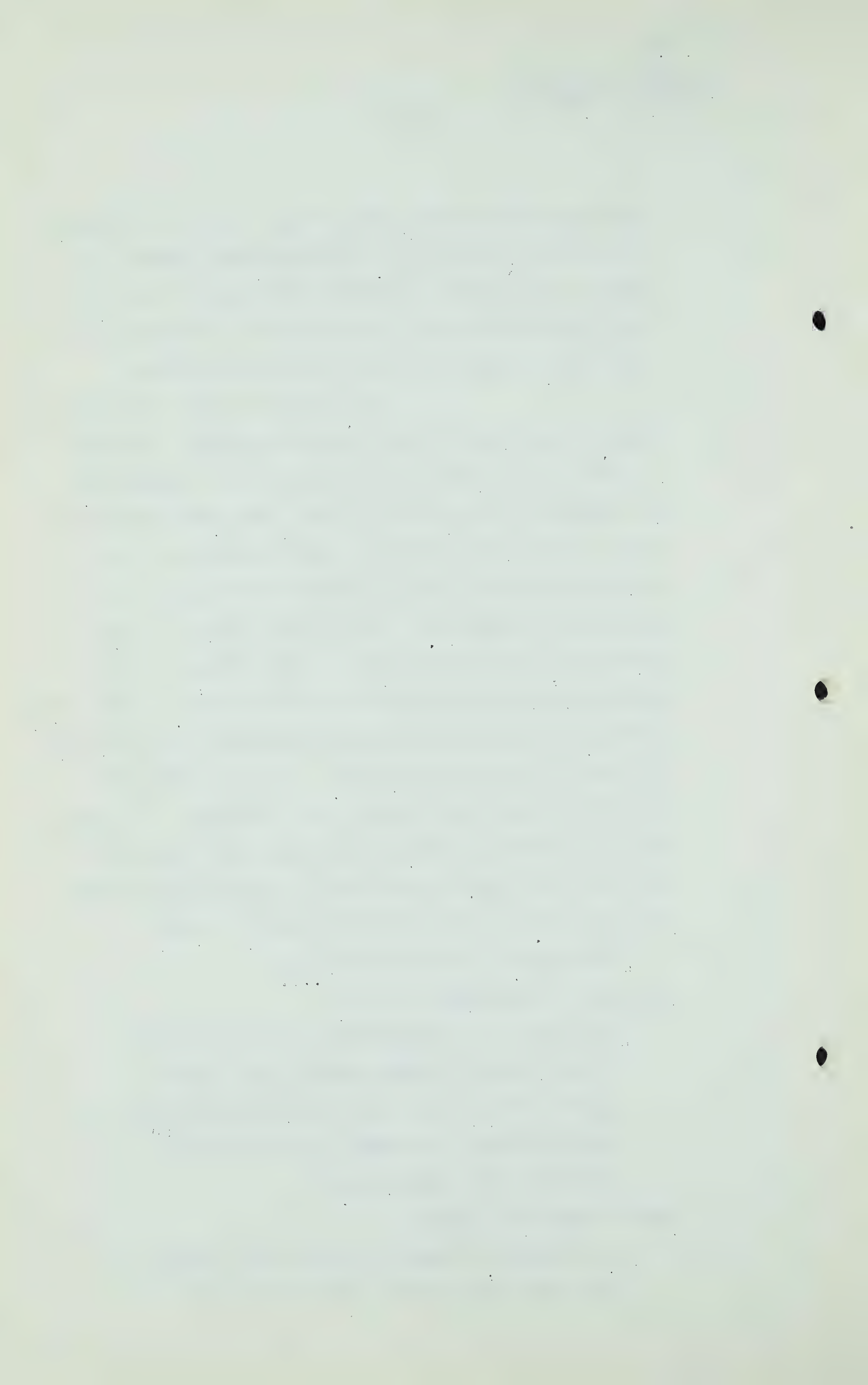
"Obviously, the convenience"....

this was on February 6th, 1950,

"Obviously, the convenience and the interests of the Alberta people require that these questions should be first examined into and dealt with by this Board before the other questions are entertained."

And at Page 433 I said:

"I, therefore, suggest and take the position that any applicant who comes before this



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by Mr. S. B. Smith

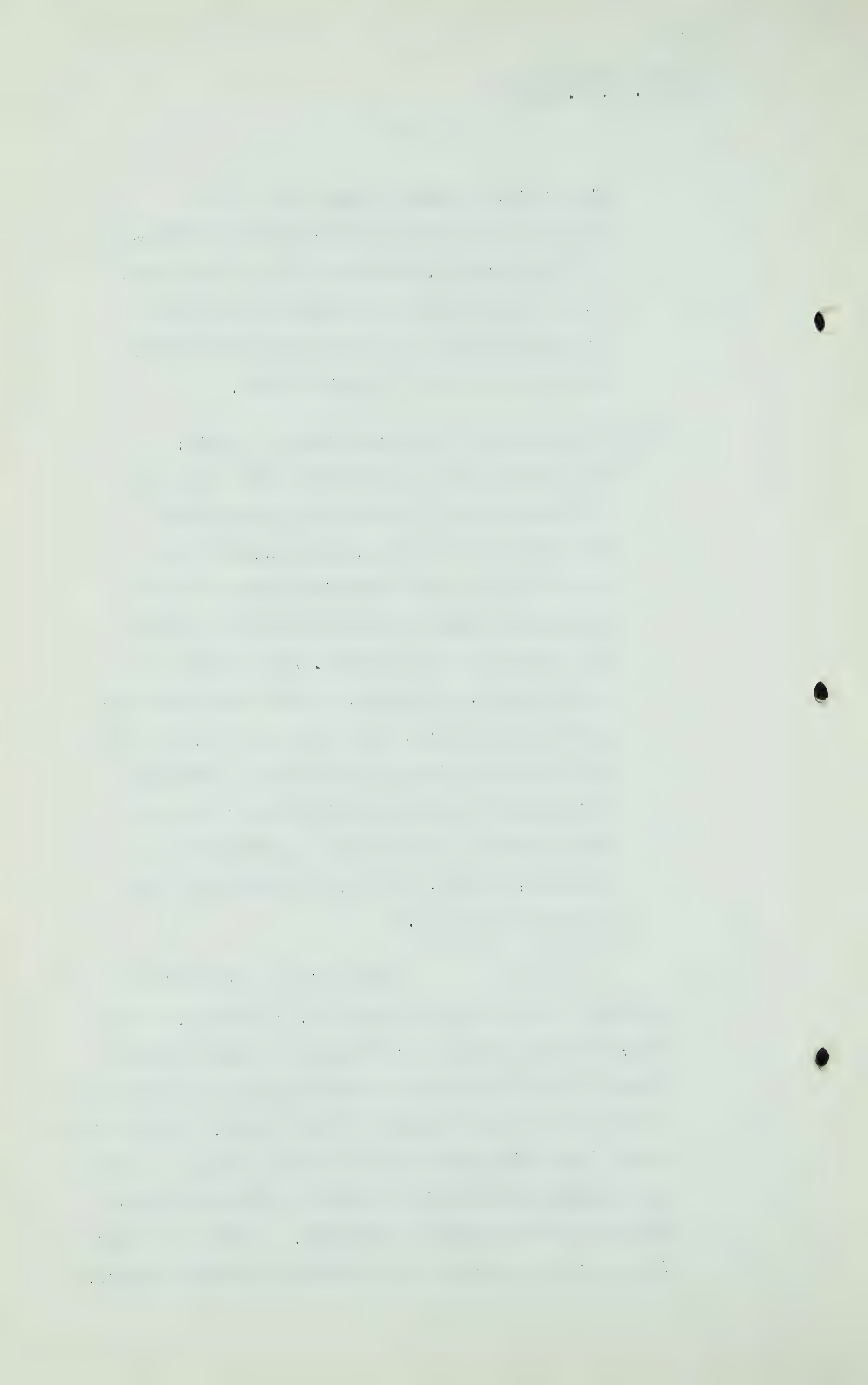
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"Board for an export permit must first specify the conditions precedent laid down by the Statute, and that those are the subjects which should be examined into first and considered before any other extraneous subjects should be examined into."

And at Page 451 of the same volume, I said:

"We are here now to ascertain what the needs of Alberta are, and what the gas reserves of this Province are, and I suggest that all of these other questions have no bearing whatsoever upon the determination of whether or not there is a surplus. And it would be unfortunate, I suggest, if this Board sat for months and months, which they may do, and hear all of this evidence which may be completely irrelevant to the determination of that primary question directed by the Statute to be decided, namely, is there an exportable surplus in existence."

Now, sirs, I renewed that suggestion to the Board on June 8th, Volume 10, at Page 758, and I am not just reading these idly because I suggest that these have a bearing upon what should be done with the application at this stage. On June 10th I went into this matter again in some detail, I pointed out at page 758 that if we did not follow the course that we had suggested in February, namely, to limit in the first instance the evidence as to the question



Argument on Motion
by Mr. S. B. Smith

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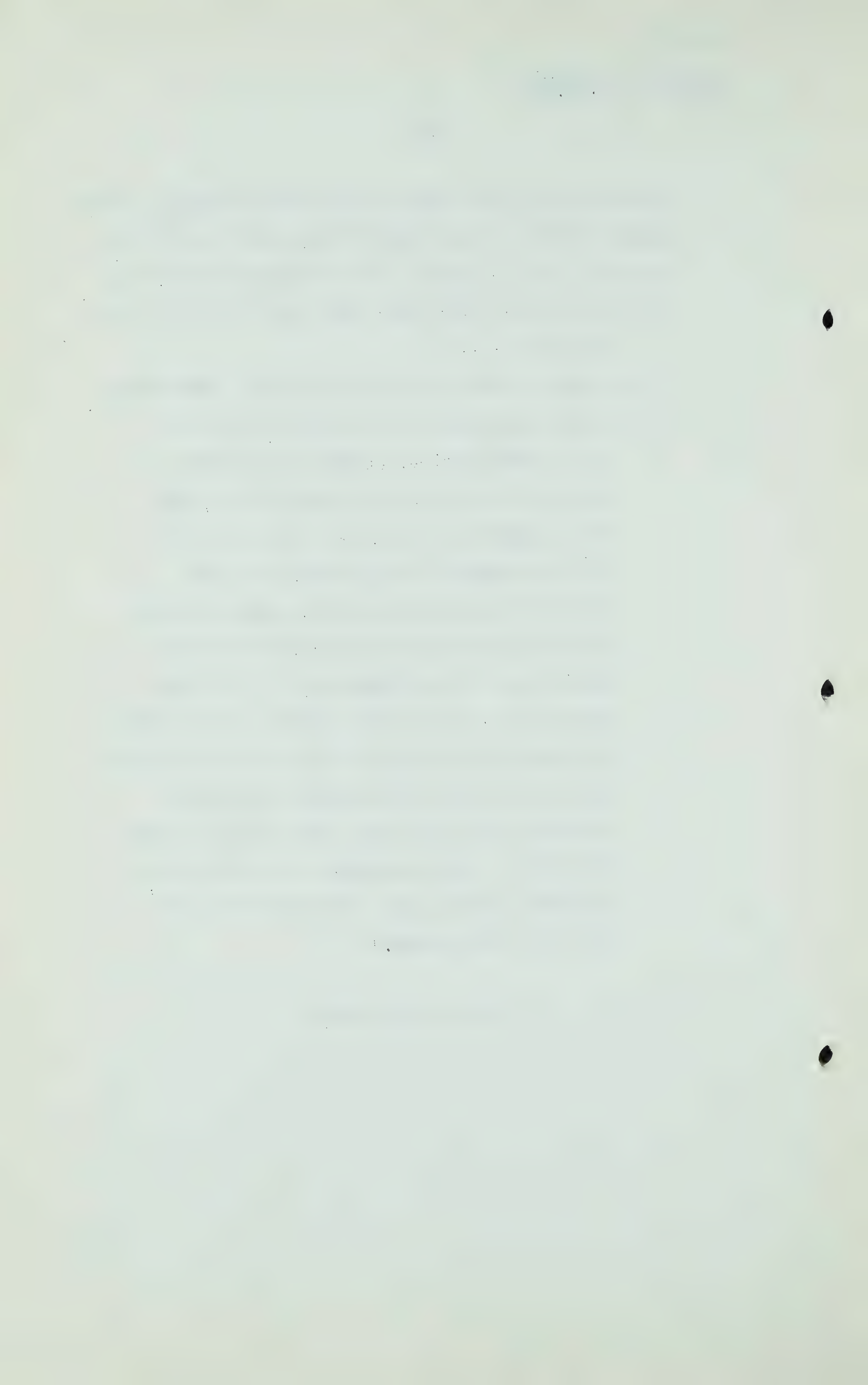
whether or not there was an exportable surplus that we might consume a great deal of time, and I said with possible loss, I suggest, to the people of Alberta, and at Page 765 I was even more specific, so I said,

"I think....."

I am sorry, I cannot quite make out the transcript.

"I took the position in detail, and it is in the transcript, at some length about three months ago, and I suggested it then and I suggest it now, that there is a condition precedent to be decided by this Board before there can be any export permit to anyone, and that the logical method of proceeding I then suggested, and I am suggesting now, is to have evidence led relating to that question and that question decided one way or the other before these collateral questions are gone into, else we may be here for years; these markets they talk about, somebody else may take those markets if we stay here long enough."

(Go to Page 118).



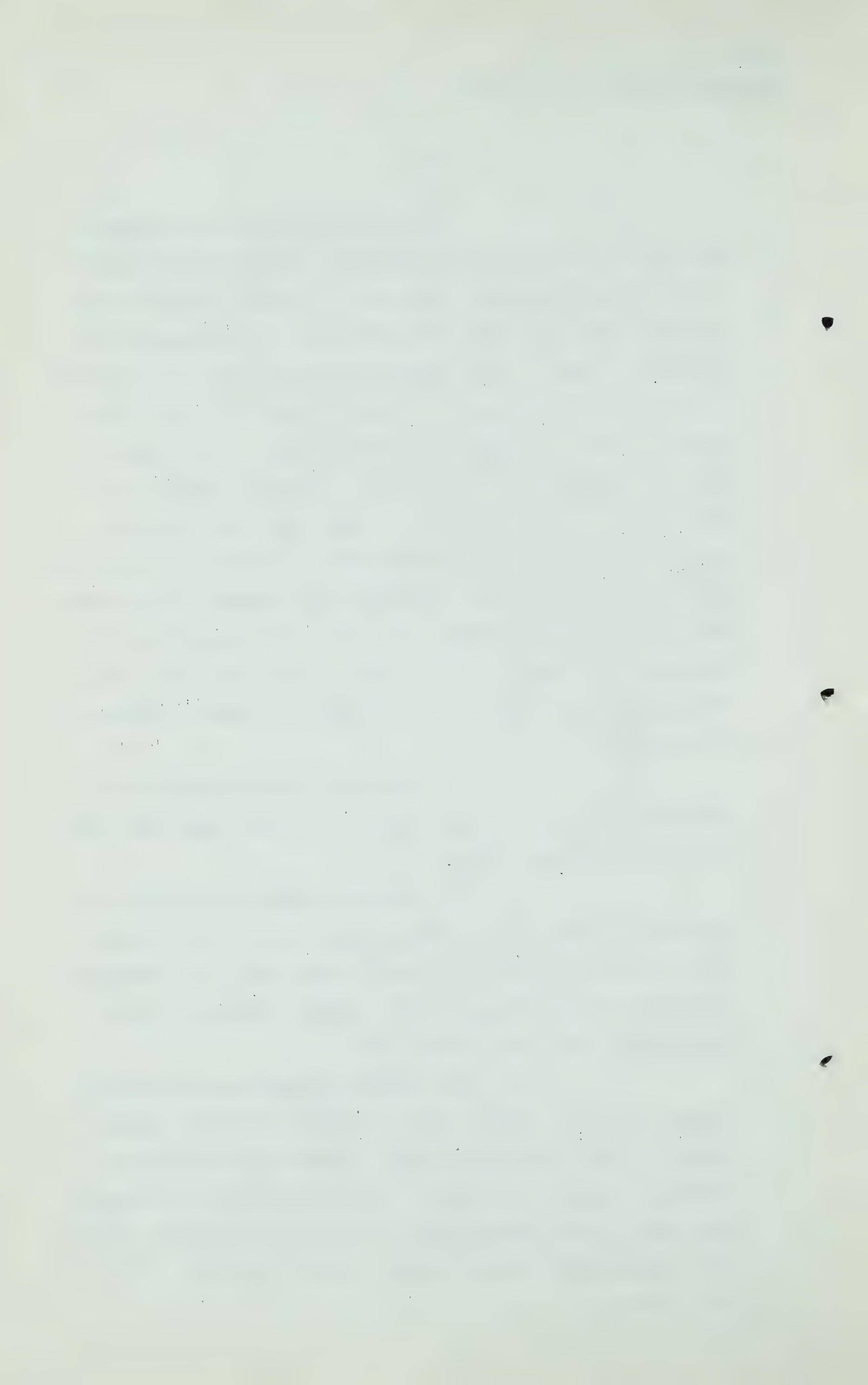
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That is the position that Prairie Pipe Lines took in February and June and again with respect to the other companies I would like to refer briefly to the position that they took. Mr. McDonald - I am not going to read all of what he said because it covers pages, but he said at page 438 on February 6th: "That is all tied in with the matter of how the surplus is to be created. It is tied in with the engineering. It is tied in with the question of markets. In other words, you can say there is a surplus available for the particular purposes for which it is required. There is a surplus that is available for market, but the only way you can arrive at that is to look at the market in its entirety. The question of the route of the pipe line out of the Province has a bearing as to whether the gas is surplus or not surplus."

Mr. Fenerty, I must concede that I think the position he takes today is entirely consistent with the position he took before.

Mr. Steer, on behalf of the two gas companies at page 447, at some length said that the issues should not be divided and he said at page 447: "It strikes me it would be very much against the public interest if this inquiry were restricted in any way."

Mr. Mahaffy, appearing for the Grid Company, he said: "In my short consideration of his application" - that is my application - "and in my humble submission, it would be a terrific error to endeavour to divide this case for the reasons which everybody has advanced and for other reasons which come to mind, one for instance - - " and he went on.

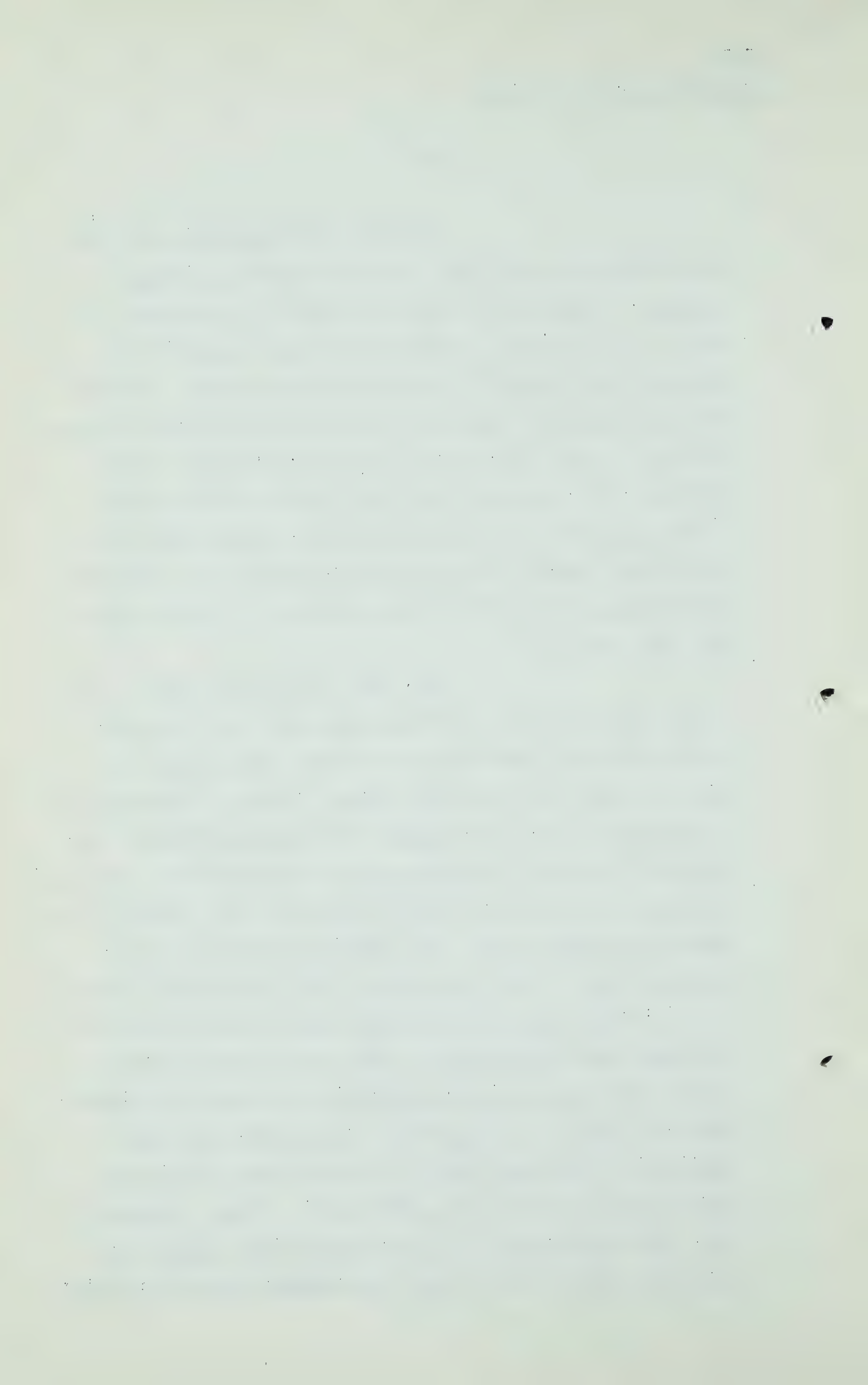


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So that in the suggestion that we made in February and again in June we were unanimously opposed, I think it is correct to say, by all counsel. In fact, the Board's own counsel opposed our suggestion in February and I think he opposed it again in June. Counsel for the Northwest Company and the Alberta Natural Gas Company in June, at page 765, on June 8th said: "I think I should add here, sir, because we put in a lot of work and effort in the preparation of this application, I would not like to think that the Prairie would be excused any of the efforts we have made." We must go along, because the other companies have gone that way.

Now, sir, I then would like to turn to the question as to the duties and powers and responsibilities of this Board under the statute under which the Board is functioning and this inquiry is being conducted. May I first point out, and I suggest very strongly that the conclusion I am going to advance here is supported by Mr. Manning's statement in the letter from the Honourable Mr. Tanner to this Board of September 23rd. Mr. Manning's statement as reproduced there - I am only going to read the relevant part of it - is: "When fully satisfied that this surplus exists over and above these requirements, sufficient to justify export under sound conservation and proration practices, the Government will approve the export of such surplus, with each application being considered on its own merits and in the light of all prevailing circumstances." That, I suggest, sir, with every respect, does not sound like a suggestion that this Board should by-pass the responsibility of deciding

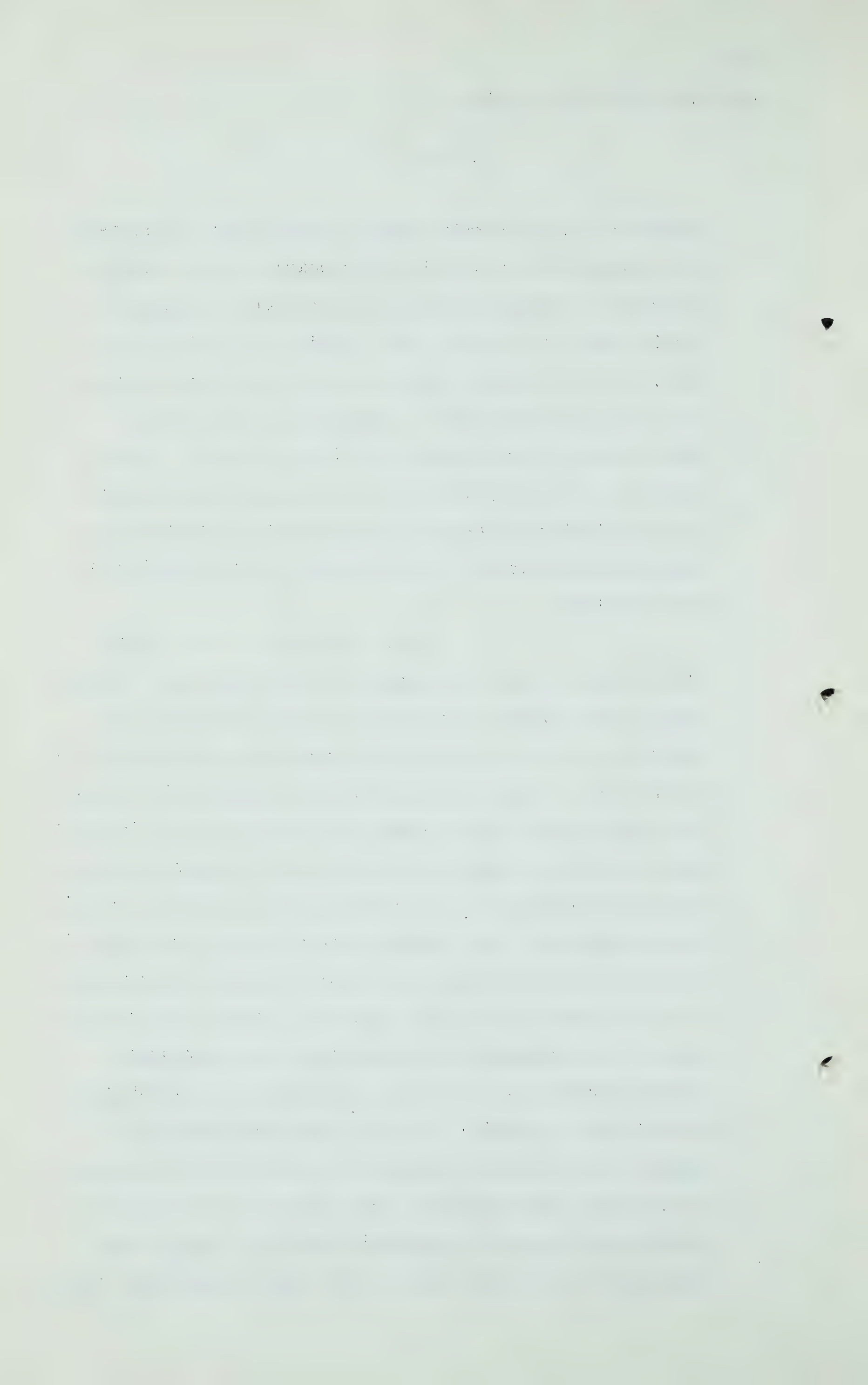


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whether an export permit should or should not be granted and neither does it say that this Board should in effect delegate its responsibilities to the Board of Transport Commissioners for Canada. Mr. Manning says this Government, if it is proven that there is an exportable surplus, that each applicant will be considered on its merits. That is what the Premier of this Province said. That, I suggest, is the duty imposed by the statute under which we are functioning and appearing before you and that is the interpretation placed upon the statute by the Premier of this Province.

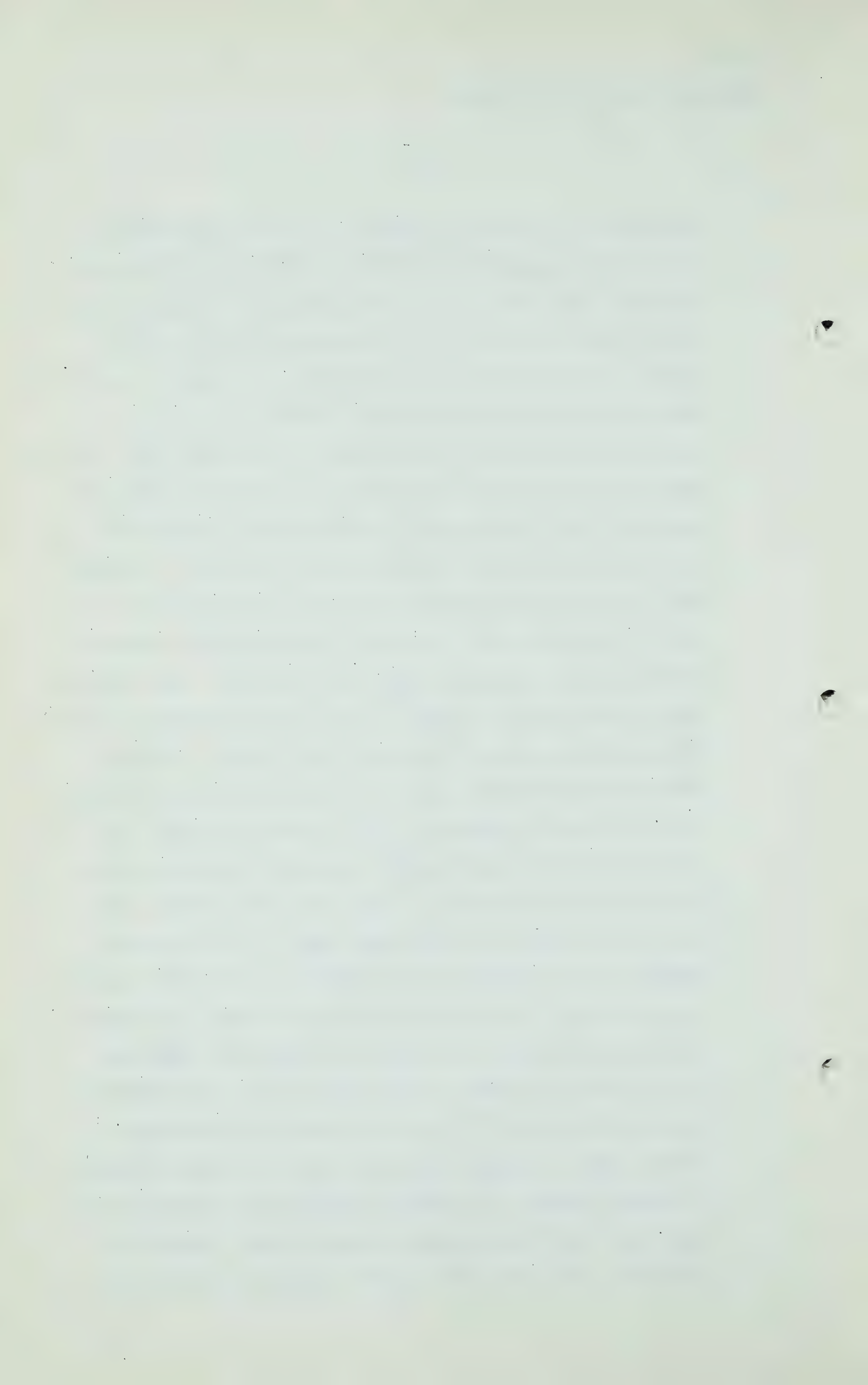
Now, if you turn to the statute itself that position, I suggest, is well borne out. There cannot be an export of gas unless in the opinion of the Board the gas is surplus to the present and future needs of the Province. Now, how do parties get before this Board? They apply for an export permit and the Board then inquires into and hears the application and with the approval of the Lieutenant Governor in Council may grant or refuse a permit to the applicant. Not a word in this statute from beginning to end to the effect that this Board can make a declaration in the air that there is an exportable surplus and can then pause in its proceedings and say there is an exportable surplus but we will not decide whether the applicant can or can not have a permit. We will leave the question of whether any particular company can export gas to the Board of Transport Commissioners. When the Board of Transport Commissioners makes the selection then that company may come back to this Board and we will rubber stamp that - what



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Mr. Martland suggests in effect - we will rubber stamp the selection made by the Board of Transport Commissioners. I suggest that the actual consideration and design of the provisions of the statute, when we apply for an export permit, is that there is a statutory duty imposed upon this Board to hear the evidence and to refuse or to grant a permit. Not to decide whether there is an exportable surplus and leave the question of whether any particular applicant may build the line to carry the gas out of this Province to the Board of Transport Commissioners of Canada. I suggest with every respect that the question of whether there is gas for export and who is going to export gas is primarily a matter within the Provincial jurisdiction. That has been said in the House of Commons by the Prime Minister of Canada and also by the Right Honourable C. D. Howe. I think excerpts from Hansard could be read to support my recollection, if that is required. The Province has taken that responsibility of dealing with the export of gas and has placed the responsibility of that upon this Board. This Board shall hear the evidence and make a decision as to whether, which company is to be granted or refused a permit and this Board, we suggest, should not by-pass the responsibility of making the decision, as Mr. Martland suggests. We go further and say that this Board has no jurisdiction to leave that question in the air and then, in effect, to rubber stamp a decision made by another body set up under a Federal statute. In further support of the position we took, and just for the sake of clarity may I state the position we take today and the position we took in



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February and again in June. We have suggested months ago before any of the other companies that there was a risk of losing markets unless these hearings were expedited. We said that on February 6th and we received opposition from counsel for every other company. We received opposition again in June. We concurred that it is wise to expedite the hearings and to decide first the question as to whether there is an exportable surplus but having decided that we say that the responsibility lies squarely on this Board, under this statute, to hear the remainder of the evidence of the applicants and to decide which of the applicants should be granted a permit or should not be granted a permit. That is the position we took in February last and in June last and is in straight contradiction with the position taken by other companies at that time and taken by other companies at the present time in this astonishing reversal of position by, I think, every company with the exception of Western, which I think was not represented here in February and June, and just did not take any position at all.

MR. MARTLAND: They were here.

MR. S. B. SMITH: Then they were pretty quiet.

MR. MARTLAND: They were here.

MR. S. B. SMITH: May I say, sirs, further, that the statute does, I suggest, contemplate that these related questions should be gone into? Under section 5 it is not only the reserves and the needs of Alberta that are to be considered by this Board. The Board may require all this other information. The marketing area or areas to be supplied with the gas. The estimated maximum hourly peak

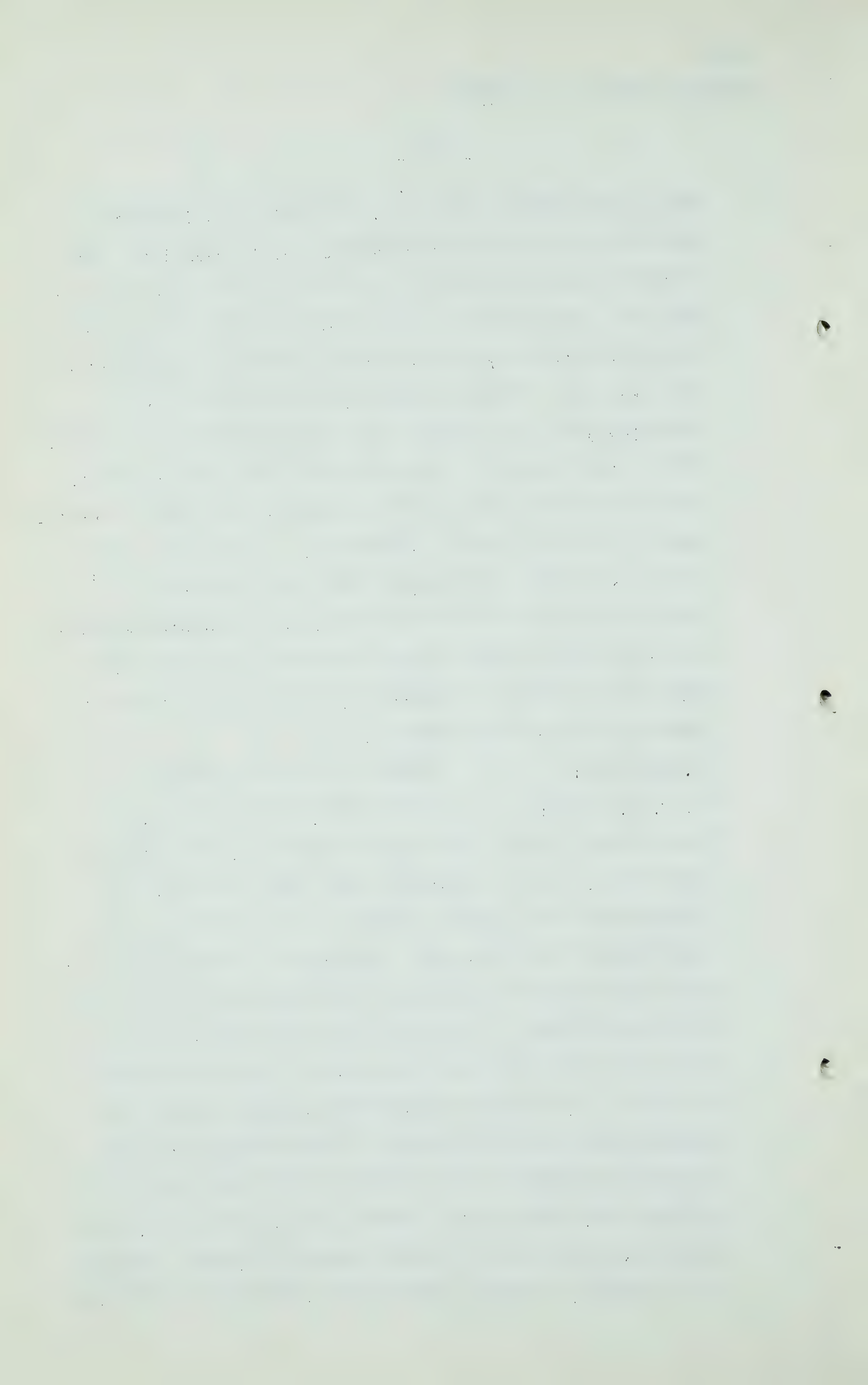
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load. The number of domestic, commercial and industrial consumers and the estimated maximum hourly peak load. The estimated monthly and annual requirements for each class of consumer. Particulars of the specific purposes for which the gas required for commercial and industrial consumption is to be used. Official meteorological records for the marketing area to be served and estimates setting out particulars with respect to temperature and time, as to anticipated temperature lows and the estimated load factors obtaining by virtue of climatic conditions. And so on. The statute obviously contemplates that the Board should and must go into these related questions in considering whether or not an export permit should be granted. And when we made the application in February last which was vigorously opposed by every other company - -

MR. MARTLAND: Nearly every other company.

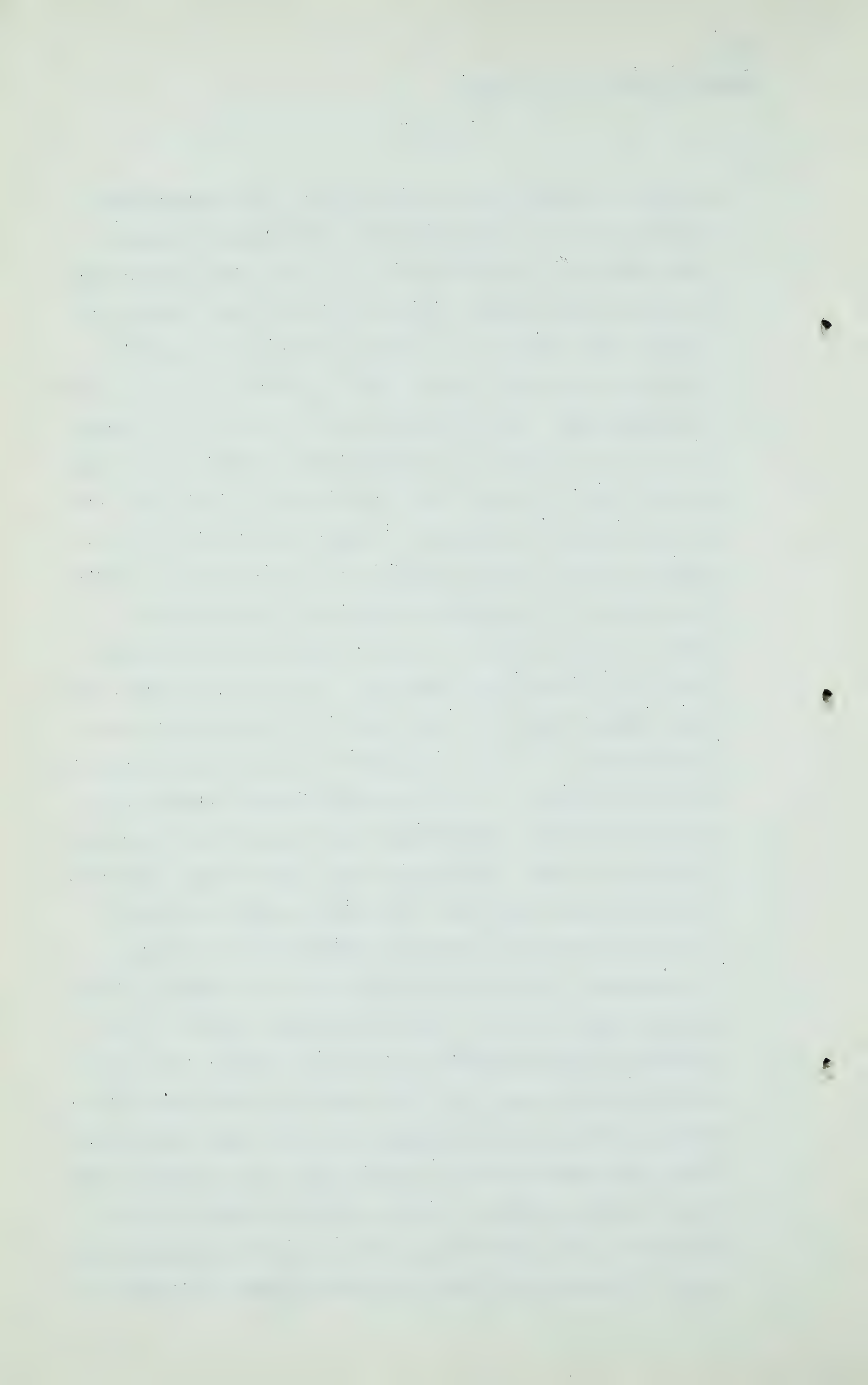
MR. S. B. SMITH: Nearly every other company, the Board itself at that time ruled at page 513, following our application: "We have decided to proceed to hear all the evidence that we consider relevant to the hearing of the application of the Westcoast Transmission Company Limited." So having taken that position in February and having taken that position again in June, we then proceeded to prepare all of the other evidence at a cost of tens of thousands of dollars. We now have that other evidence ready. We prepared that evidence because of the provisions in the statute and because of the ruling of this Board and the position this Board took. Beyond that on April 13th, the Board wrote us a letter, quite properly I suggest, setting out at length, 4 pages, the material which we were directed



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to file. We have gone to work and we have prepared that material and that deals with all those related matters. That letter was presumably sent to every other company and we say the Board quite properly directed every company to furnish that material. In accordance with the Board's ruling and direction we have had that material in the course of preparation. So far as Western Pipe Lines is concerned if it does not want to give any evidence relating to design of pipe line, costs and route and things of that kind, that is that company's business. It does not have to give any evidence at all unless it wants to. If it wants to confine its evidence to geological evidence of the reserves of Alberta and the needs of Alberta, then we have no quarrel with Western Pipe Lines whatever. But we say we have, and every company has, the right under the statute to go into these matters. We quite concede it is wise that the question of whether there is a surplus in Alberta for export should be first decided. We advocated that vigourously in February and again in June. We advocate that again today. Mr. Martland very calmly says that his position about sending it down to the Board of Transport Commissioners at Ottawa is seconded by the Minister of Trade and Commerce. Those are the words he used. Those are his own words. If you examine the Right Honourable Mr. Howe's letter - at least I have examined it and I can find nothing in Mr. Howe's letter from beginning to end to suggest that this Board should not fulfil the duties that are imposed upon it by statute, that is of deciding whether a permit should or should not be granted to each applicant and shall in effect delegate its duty to the Board of Transport Commissioners at Ottawa.

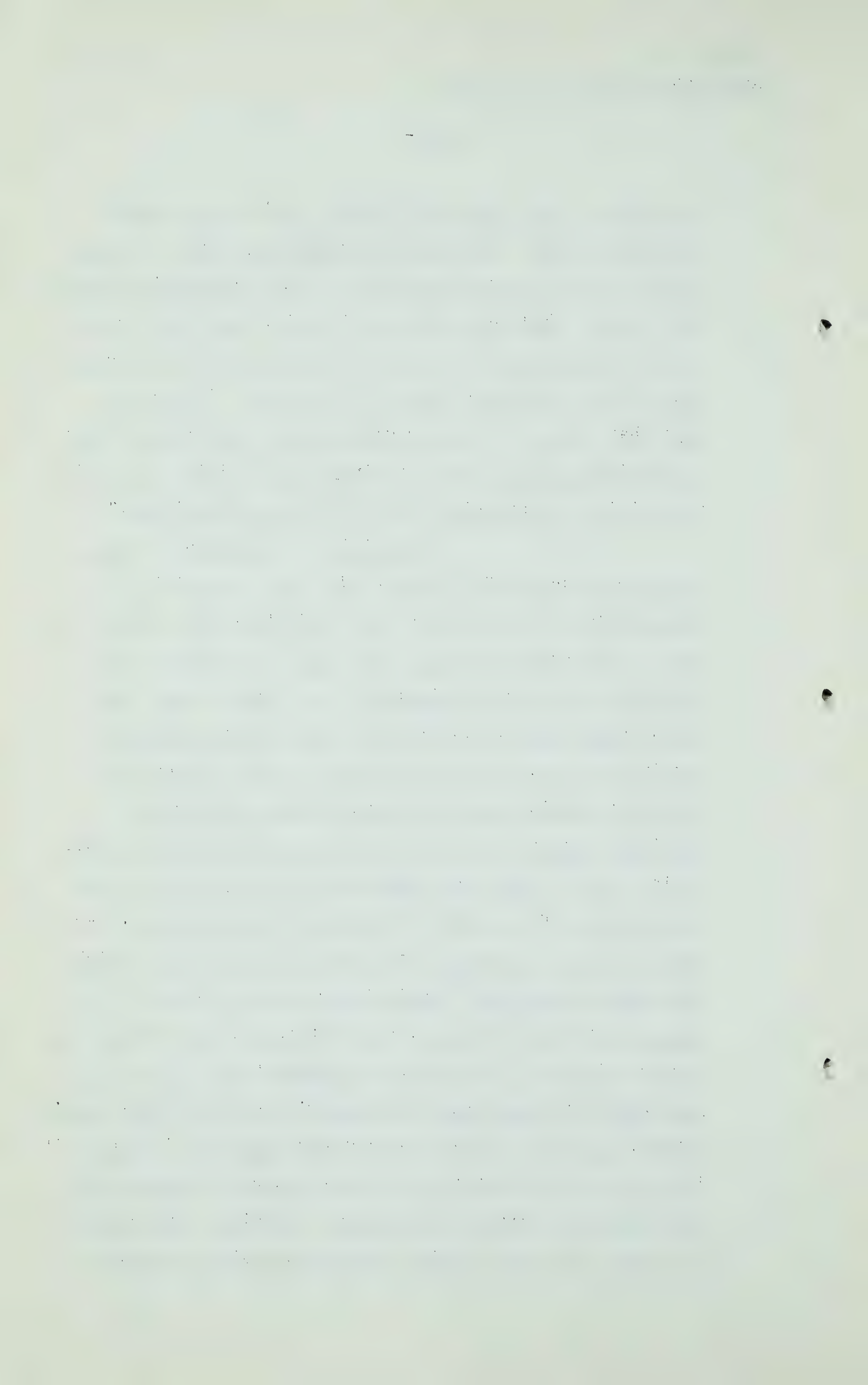


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There is no such suggestion in Mr. Howe's letter from beginning to end. Mr. Martland calmly says that Mr. Howe in effect has seconded his motion or his application before this Board. What Mr. Howe does is this, and I will read his letter or a part of it. "There would seem to be great urgency for a decision one way or another. I sincerely hope that it will be forthcoming shortly, as pressure from the Munitions Board will certainly be a decisive factor in authorizing the granting of the franchise from Texas."

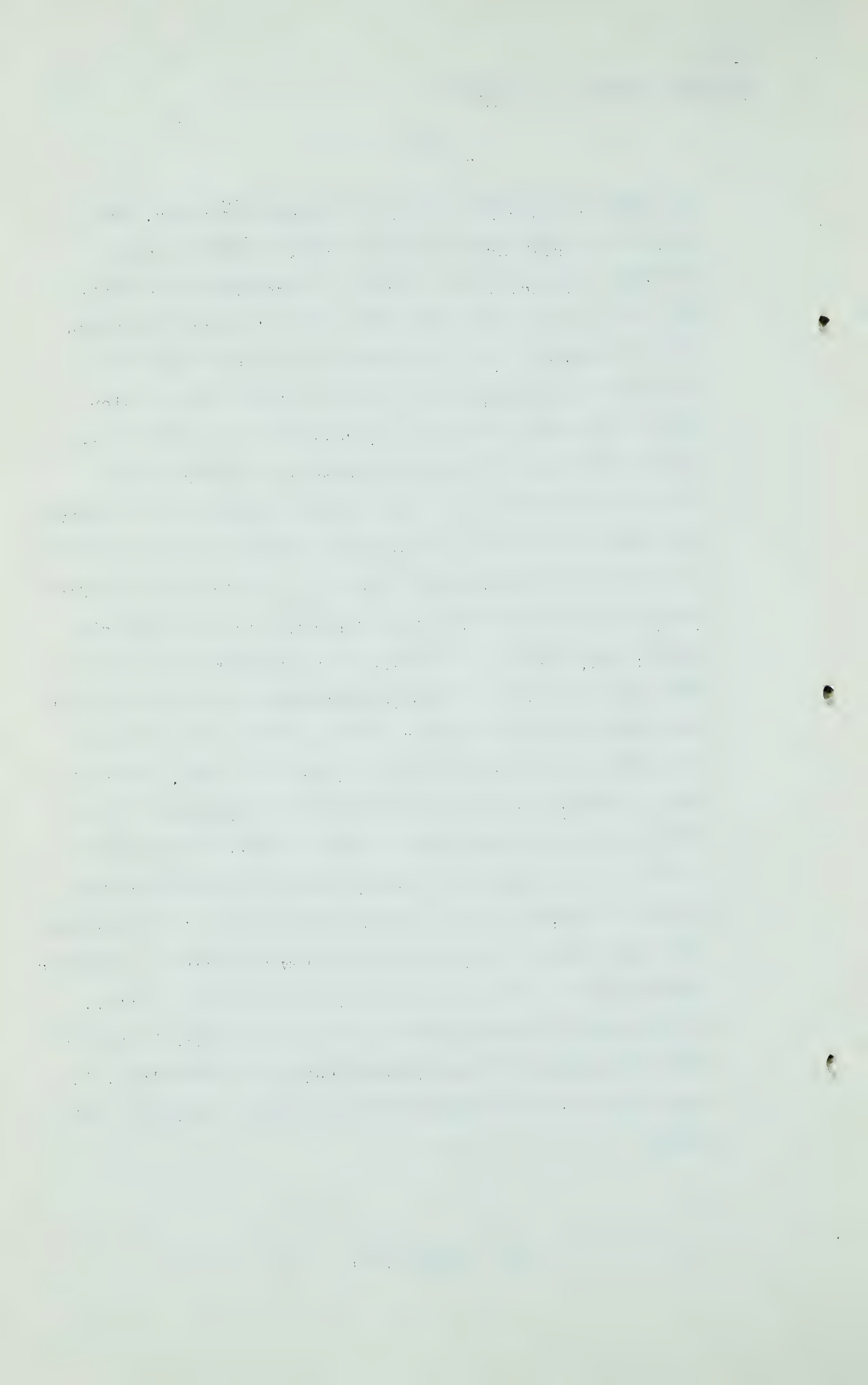
Certainly the question is urgent. It has been urgent for months. We took the position in February last it was urgent. We again took the position in May it was urgent. We take that position today but that letter does not from beginning to end suggest that this Board should only decide whether there is an exportable surplus and should then stand back and let the Board of Transport Commissioners at Ottawa decide whether any applicant should or should not be given permission to build a pipe line and that this Board shall simply rubber stamp any decision of the Board of Transport Commissioners. An examination of our statute and of the statute under which the Board of Transport Commissioners operate does not, I suggest with every respect, bear out that view as being the correct view at all as to the procedure to be followed. If you examine the Honourable Mr. Tanner's letter and Mr. Howe's letter, contrary to what Mr. Martland suggests I suggest it is quite obvious that the executive council of Alberta and the Minister of Trade and Commerce, the Right Honourable Mr. Howe, are simply saying now what we said in February



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and again in June and what we are repeating today, that there is a great urgency and we should expedite these hearings. We are quite heartily in agreement with that. But there is not anything in Mr. Tanner's letter that you should delegate any of your functions to the Board of Transport Commissioners and follow blindly any decision made by them. What he says is, "Owing to the urgency expressed therein, I have been directed by the Executive Council to ask that your Board do all possible to facilitate your hearing so as to determine the amount of proven reserves of deliverable natural gas within the Province and the foreseeable needs of the Province for domestic and industrial users; and, further, to advise as to whether or not and to what extent there is a surplus which might be available for sale outside the Province." Those are not the identical words that I used in February and again in June, but it is hard to distinguish the effect of that paragraph from the effect of the statement that I made in February and again in June. So I suggest so far as drawing any support from Mr. Howe's letter or the Honourable Mr. Tanner's letter that this Board should step aside and allow the Board of Transport Commissioners to make the final decision in this matter, to draw any such inferences out of these letters I suggest with every respect to my learned friend, Mr. Martland, is entirely a piece of imagination on the part of Western Pipe Lines.

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MR. BRUCE SMITH: Now, may I also say, sir, that the application before the Federal Power Commission which is referred to by the Right Honourable Mr. Howe is the application of the Pacific Northwest Company of which the companies I appear here for are subsidiaries. Now, sir, with respect to the procedure to be followed, I hope I have made my position clear. We are ready to proceed today. That is to say, we contend that the Western's case be proceeded with, the Prairie Company will be ready to proceed on October 9th, as the Board has suggested, a notice having been given of that application. We suggest there is no need for an adjournment for a month. The situation is still urgent and we suggest that these Hearings be carried forward as rapidly as possible.

MR. D.P. McDONALD: May I make this enquiry? Has there been an abandonment of the application of Pacific Northwest Pipelines which was set for September 4th? Do I understand there is a consolidation with Prairie Transmission Company Limited?

MR. BRUCE SMITH: I understand, sir, that the Pacific Northwest Company has written to the Board and withdrawn its application.

MR. D.P. McDONALD: And therefore my learned friend represents the interests in Texas who are competitive with the other parties here?

MR. BRUCE SMITH: I am representing Prairie Pipelines Limited and Prairie Transmission Lines before this Board. It is their application.

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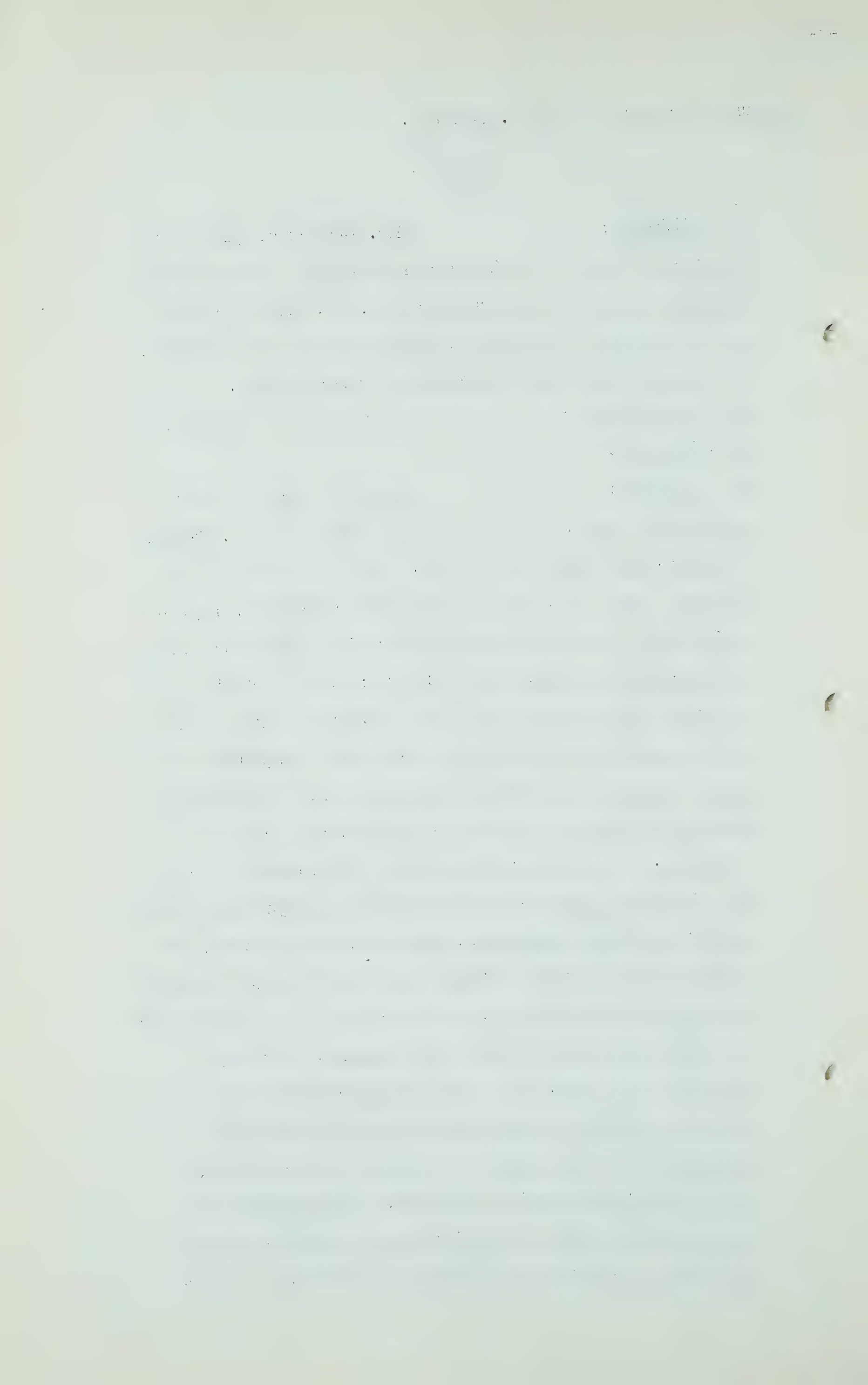
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MR. MAHAFFY: Mr. Chairman, just a few remarks on behalf of Alberta Inter-field. One of the companies which my learned friend, Mr. Smith, assumed has reversed its fields since last spring. Of course, he assumed that before hearing our submission.

MR. BRUCE SMITH: That is quite correct, Mr. Mahaffy.

MR. MAHAFFY: However, that is just a pun on the side, as a lot of the remarks of Mr. Smith, I think, are considered to be. The situation at the present time, sir, as far as we are concerned, representing as I do the Alberta Inter-field proposed grid system, may be summarized this way: We did feel in the spring of last year that it was advisable that a complete case should go in along the lines suggested at that time by the Board, constituting the requirements which the Board felt necessary in order to come to a decision. We do at this time see very much merit in the suggestion that some months having elapsed the Board should now take some steps, some reasonable steps, to speed up the Hearing of these applications, and that if the Board does so decide, and of course it is master of its own procedure, we are quite content. But may I hasten to add this, as a proposed grid system we feel that in addition to the question of the amount of reserves that there must be tied to that question, as the Chairman himself suggested, the question of deliverability and in addition what I might call the question of availability of those reserves. Deliver-



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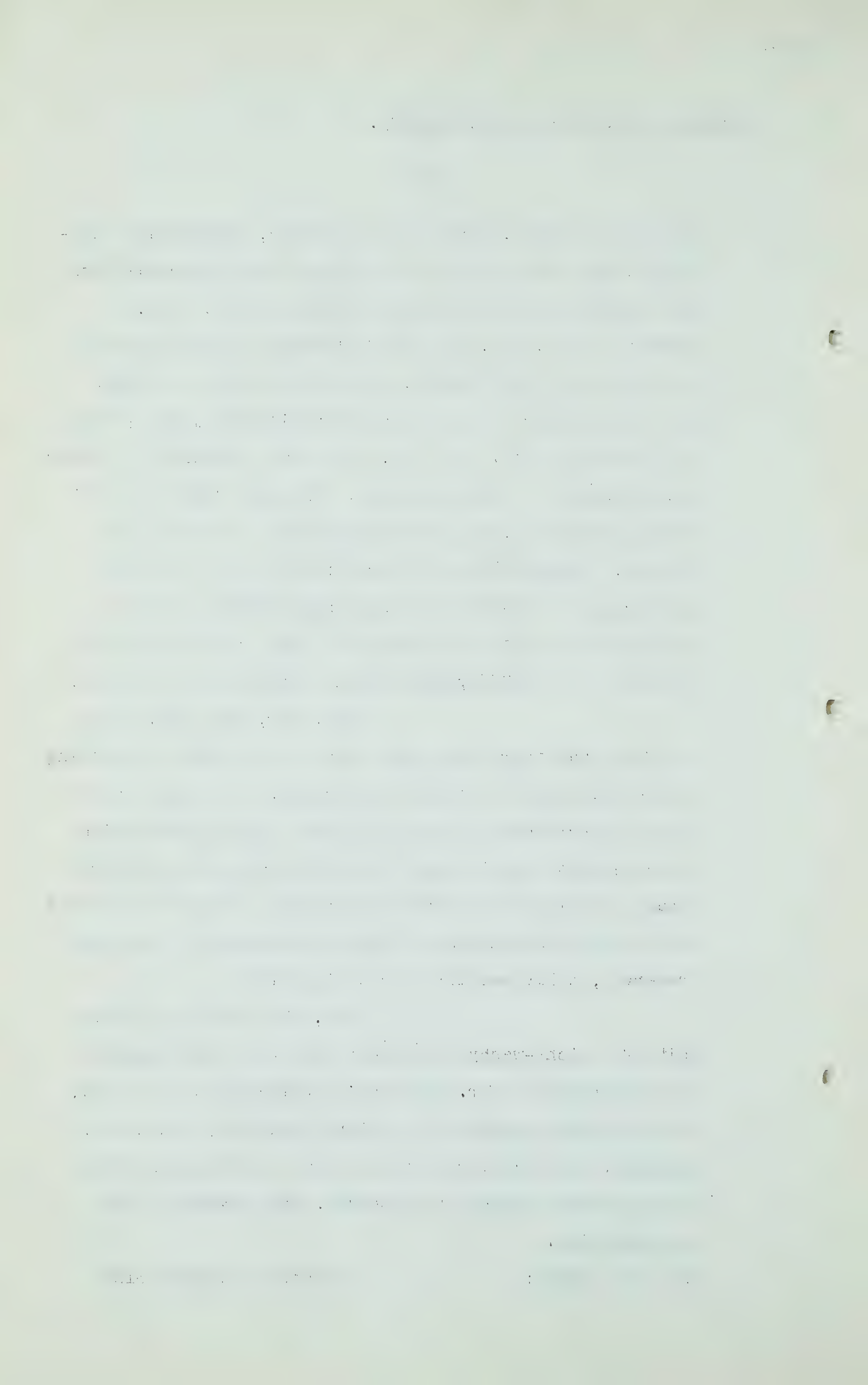
ability, I think, applies to the field, availability probably, and the position of the field geographically from any proposed pipelines or gathering systems. Now, I hasten to add, sir, that we feel that we have something to offer in a grid system, not only to local consumers but to exporters on questions of availability and perhaps to deliverability. In fact, we do have something to offer with respect of deliverability. They are linked up with those two things, peak load requirements from dry gas fields, storage facilities from fields which are over-producing of necessity during summer months, and all those various problems which, as I say, we feel are very much tied up with a proper and an efficient grid system.

Now, sir, as I say, while we feel that there is a great deal to be said for anything which will speed up these proceedings, we do hope and we fully expect that insofar as our grid system submission is concerned that if there is a shortening of procedures that we will still be entitled and that we will be allowed to be heard insofar as our submission has to do with gas reserves, deliverability and availability.

Now, that may be a little bit of a wishy-washy statement insofar as I am opposed or not opposed to Mr. Martland's application. As I say, we are quite prepared to go along either way and we do, however, see much merit in the idea of getting an early decision with respect to reserves, deliverability and availability.

MR. C.E. SMITH:

If there is nobody else



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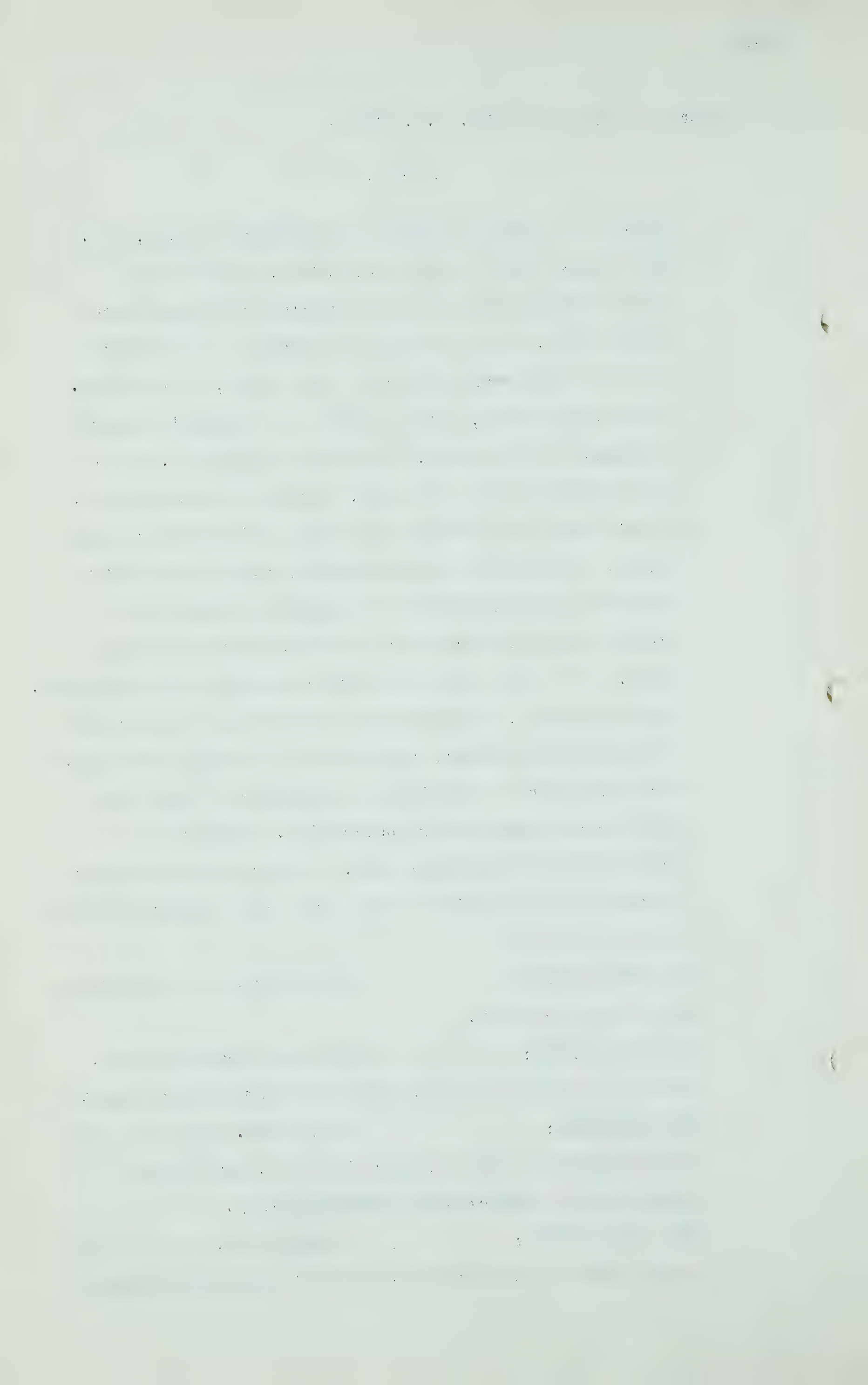
directly concerned, I have an odd remark to make, sir. May I repeat what I once said before, and it is a little difficult to act for or against any suggestion such as this. It is purely as a matter of assistance to an old gentleman here and to the Board, if possible. In the first place, let me refer to Mr. Smith's remark on behalf of his clients, the Prairie Pipelines, and I have forgotten the other name, I may call them Prairie, he said that his position had been consistent for seven months. I agree he has consistently avoided for seven months to give this Board the slightest tittle of a written submission which may be of assistance to this Board. So in that way they have certainly been consistent, except for this, that possibly a very recent application to amend their original application by stating that they were now a part or subsidiary of Pacific Northwest who only recently made their application. They may be treated as the same submission. I am referring further to what Mr. Smith said to this Board about interpretation of your statute.

MR. BRUCE SMITH: I am sorry, but your statement is not correct.

MR. C.E. SMITH: Will you correct me now, that is the simplest way. Have you submitted anything?

THE CHAIRMAN: I think Mr. Smith has submitted pipeline route information but we have had no submission on reserves and deliverability.

MR. BRUCE SMITH: I understood, sir, that my people were in communication with the Board and arrange-



Argument on Motion by Mr. C.E. Smith.

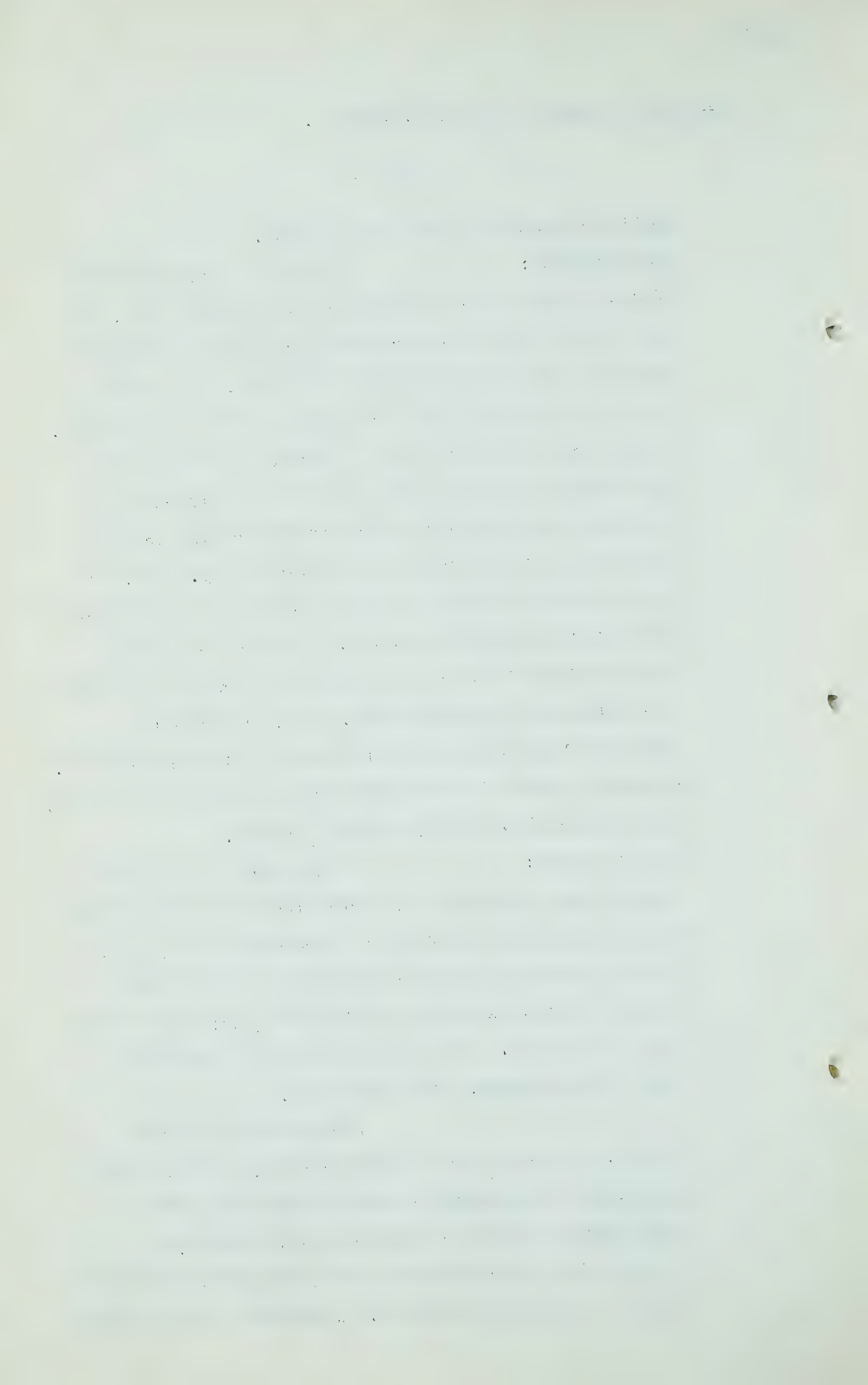
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ments were made for dates for filing.

THE CHAIRMAN: Perhaps it might be wise for me to make some statement at the present time. We feel that we have co-operated with all the applicants in every way possible to expedite Hearings. The Hearing dates have been set after consultation with all counsel. I might say, however, that the Board is somewhat disappointed at the delay upon some of the applicants in supplying the department with information, particularly with respect to reserves and deliverability. Now, if we are going to speed this up we have to get the information which the Board requires. The very thing that everyone wants to do is to clear the situation in regard to reserves and deliverability. Now, the Board's engineers can not go on until they have this information. We have to have a lot of basic data which we have not got. Now, possibly Mr. Smith you might proceed.

MR. C.E. SMITH: I was going to suggest exactly what you have, sir, namely that the times fixed by the Board have been fixed by agreement with all the parties and to suit their convenience, and I remind counsel of that. And may I remind the gentlemen of the press of that too. It is about time they suggested that in their papers, if I may say so.

With respect to joint Hearings, I would liked to have heard Mr. Martland expand that to some extent to see in what way time is being saved by what he called the joint Hearing. Certainly all applicants and their witnesses can not be heard at one and the same time. Whether or not he means

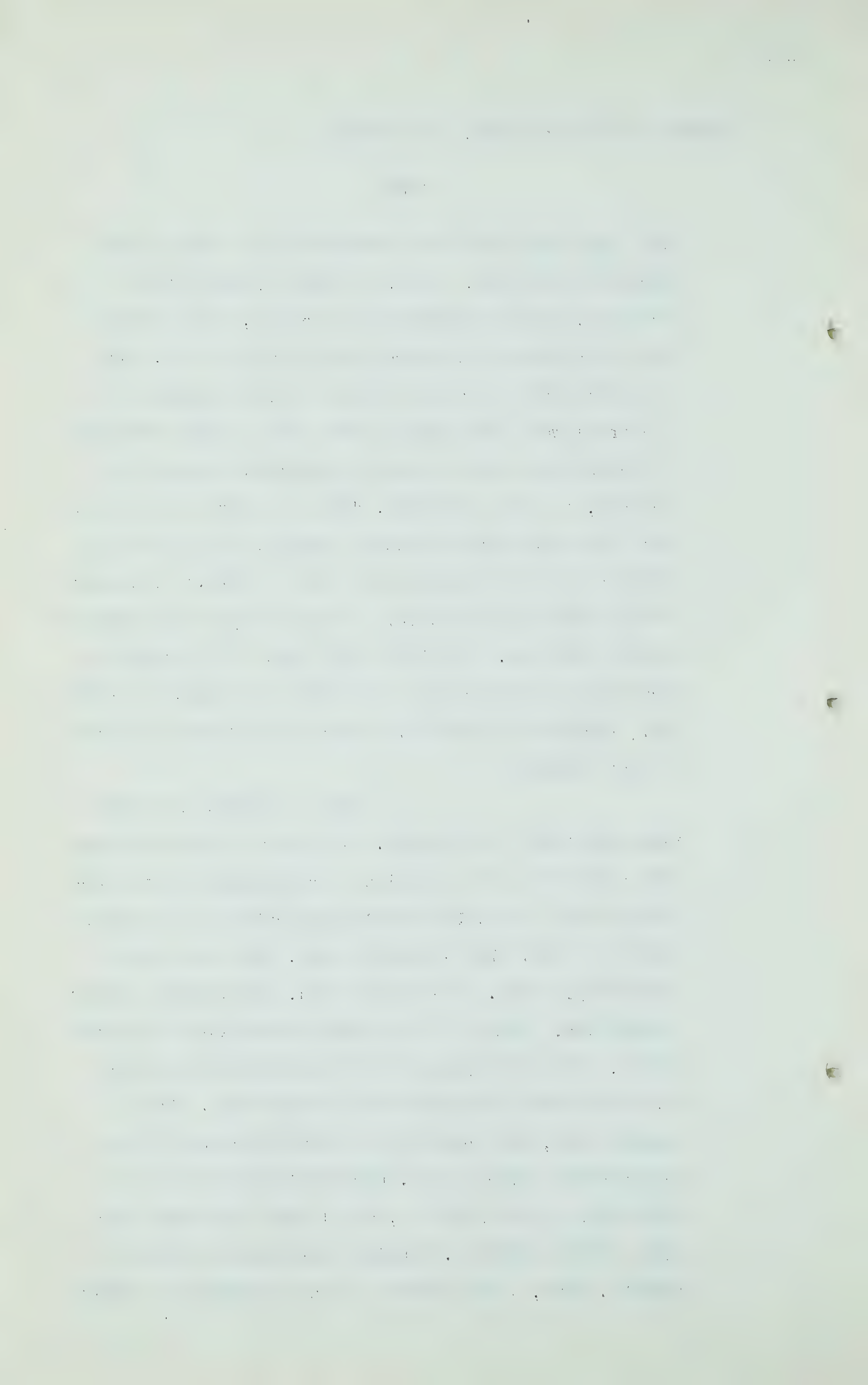


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that some date should be attempted to be fixed by the Board when they say, "Okay, we will try and finish Northwest, we will proceed with Prairie, and proceed with the balance of Western one after the other, and you gentlemen be here and ready with your witnesses." If counsel want that done I would like to hear them say so because that may be a pretty expensive proposition for them, to tell everybody, "We will start on such-and-such a date and you fellows be ready as you are called and with all the witnesses you want to call." I wonder if they have considered it. I would like to know whether or not they have. Possibly they have. Just using the term "joint hearing" does not assist the Board one little bit. Perhaps they can give their plan of what they call a joint hearing.

May I suggest one other thing and then I am through. A number of the gentlemen have referred to the question of routes and to the suggestion made in Mr. Martland's application as to how it should be done. May I suggest this, that the Board originally, as Mr. Bruce Smith said, did ask for certain information, some of it detailed in the Act as discretionary, some of it possibly not dealt with in the Act but also within the discretion of the Board. May I suggest this, that possibly the Board because of the accumulative effect of Mr. Martland's letter, the resolution by the W.C.P.A., and I have a nickname for them, letters from Mr. Manning enclosing the letter from Mr. Howe, I say because of the accumulative effect



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of those things, it may be that you, sirs, as a Board now may do your utmost to expedite matters, not because you have changed your opinion about the necessity of what you originally asked for but because of the effect of these letters and their combined effect and the fair inference that one may draw from them that you possibly should try and expedite matters now.

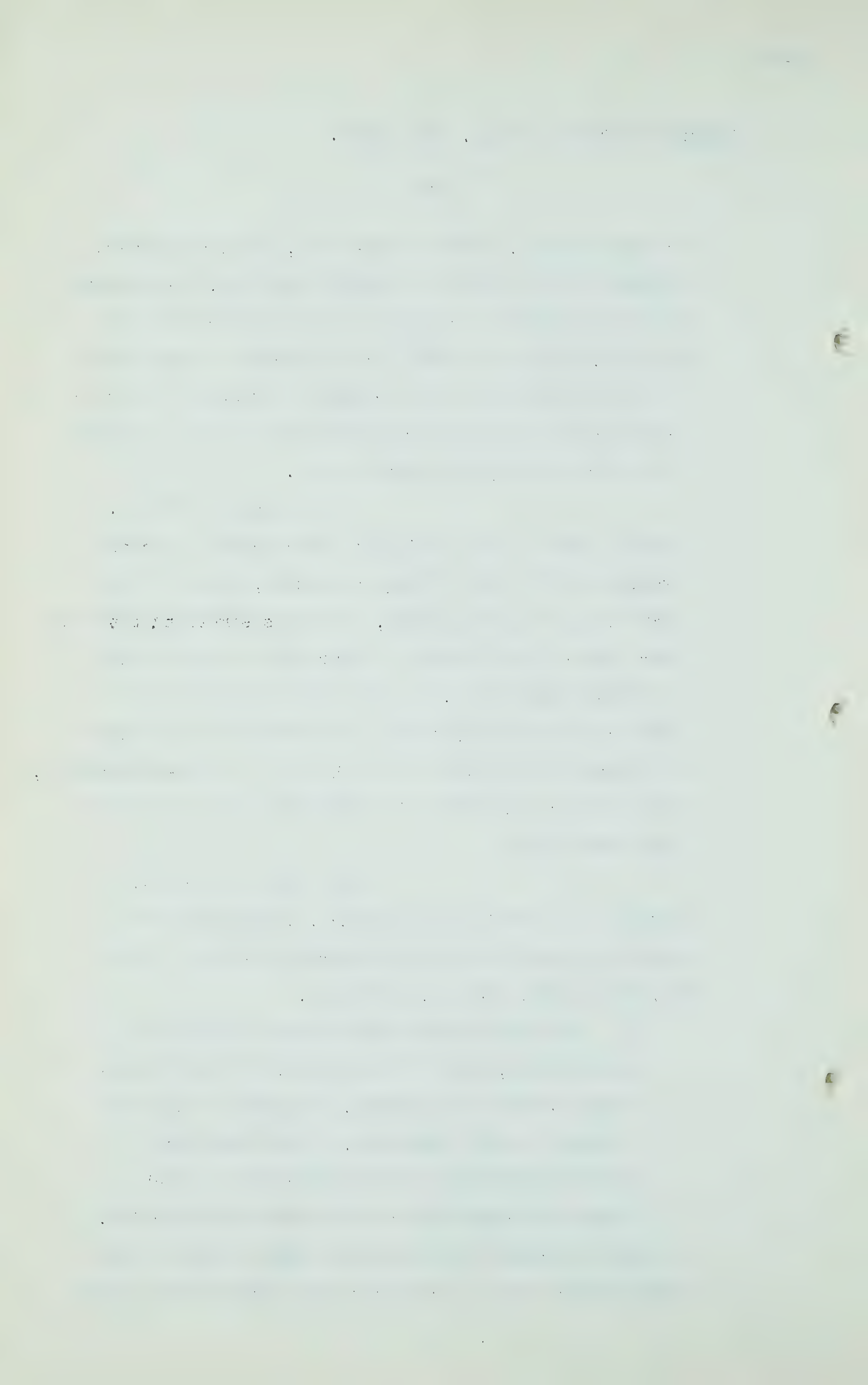
I still agree with Mr. Fenerty that in fact he is not too concerned in cross-examination with such things as routes, possibly with such things as grid systems, but it is something that this Board still should expect to hear about or see by way of written submission, and the gentlemen around this table can very easily curtail the amount of time taken up if they do not spend too much time in cross-examination, and I am sure they won't if they think it is not of too much importance.

One other reference.

Referring to section 7 of the Act, I would draw the Board's attention to the last portion of what I think Mr. Smith read, that is, section 7,

" The Board shall enquire into and hear the application, and with the approval of the Lieutenant Governor in Council, may grant or approve a permit to the applicant, or may make such other disposition of the application on such terms and conditions as the Board may prescribe."

It may be because of what we have heard recently that the Board may have to consider very seriously what that



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last phrase means and what power and jurisdiction they have under it. I would think that the Board would like to read and not try to remember everything that has been said here this morning, that they would like to have an opportunity of reading the transcript of what was said before they can make any announcement or any decision on what has been termed Mr. Martland's application. I would think that the Board would be interested in hearing how the gentlemen here think that a joint hearing can be proceeded with by way of how they are to operate.

MR. BRUCE SMITH: May I just say very briefly, sir, that I did not suggest and I did not intend to imply that there had been any delay caused by this Board in any way, sir.

MR. C.E. SMITH: I hope the members of the press heard that, too, Mr. Smith, thank you.

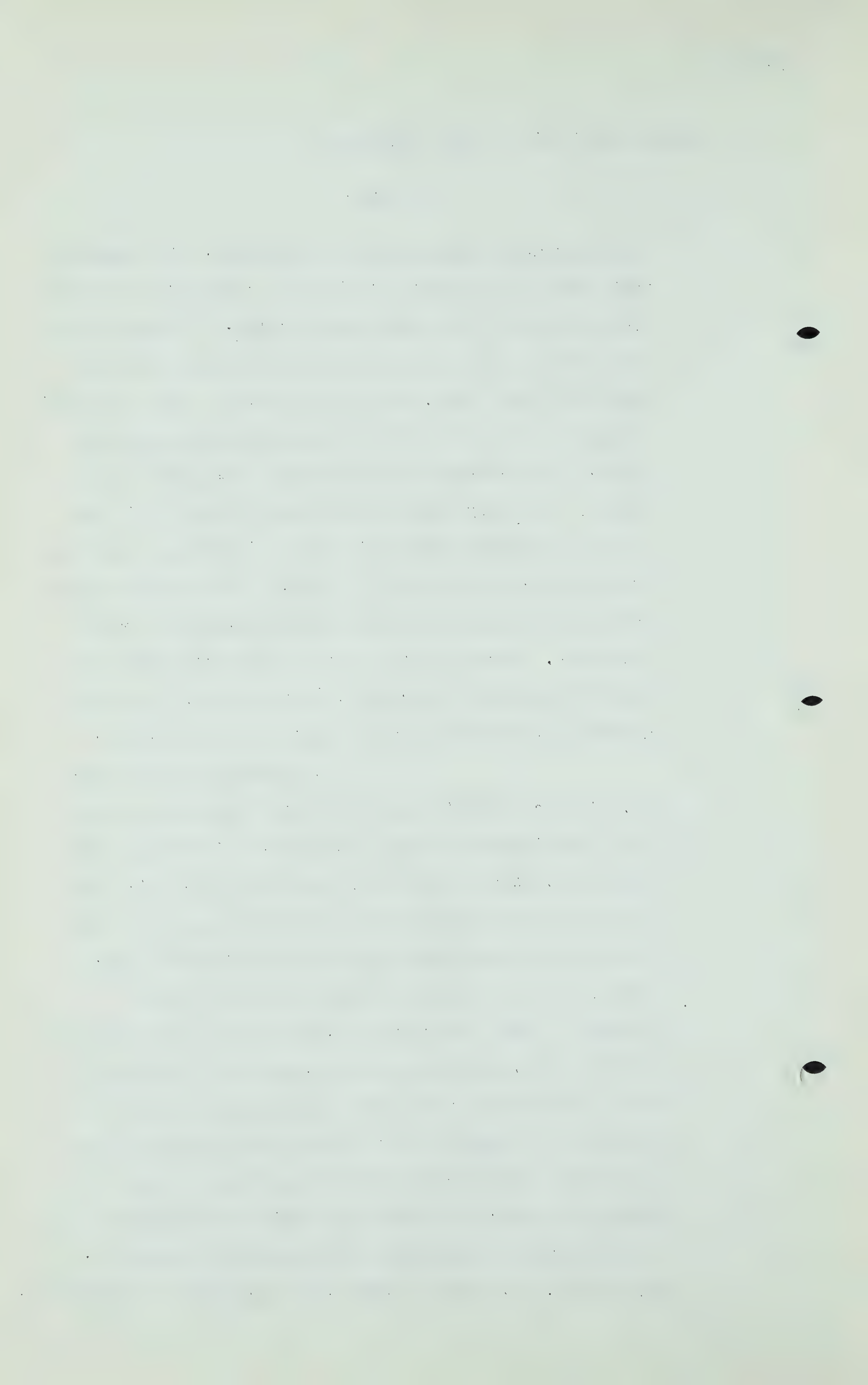
MR. MARTLAND: Mr. Chairman, as I made the motion, if I could just have a moment to say a word in reply to Mr. Bruce Smith and Mr. Clarence Smith. Apparently I am paying the penalty for attempting to be a trifle facetious in referring to the Right Honourable Mr. C.D. Howe as having seconded my motion. All that I had in mind was that apparently we were in agreement. I think that we were in agreement only on one point, and that was that there was some desirability for expedition. My friend has seriously suggested to this Board that my motion involves an abdication of the Board's function to the Board of Transport Commissioners. With respect, I would submit that the letter

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indicates absolutely nothing of the kind. It suggests that there should first of all be a consideration as to the existence of an exportable surplus. It goes on to say that if there should be a surplus that the Board might determine that, with the approval of the Government of Alberta, the conditions and provisos necessary to protect the interests of the people of Alberta and of Canada. The only suggestion which is made about the Board of Transport Commissioners is that they might be of assistance in choosing a route, a matter with which they are concerned under the Dominion Pipeline Act in any event. Certainly we are not suggesting that the Board abdicate its functions, we are merely suggesting a method of procedure which might be of some value.

I appreciate my friend, Mr. Clarence Smith's point about my suggestion as to joint hearings and I think perhaps it should have been amplified. What I had in my mind was this, sir, that at the present time we have a series of specific dates allocated to individual applicants which would run, I think, until the end of November or some time in December. What I had in mind, and what I think perhaps my friend Mr. Nolan has in mind, was that the Board might perhaps fix a date far enough ahead so that everybody is prepared for it but a date at which hearings could commence at which all applicants could present evidence dealing solely with the matters of reserves and the existence of an exportable surplus. My friend, Mr. Clarence Smith, has suggested a difficulty,



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the matter of witnesses. I think that counsel among themselves could perhaps agree on some sort of timetable and make arrangements for the presentation of it. That is what I had in mind as to a joint hearing, that a date might be fixed and that then we would carry on as from that date instead of with a series of individual applications with gaps in between.

MR. NOLAN: Mr. Martland mentioned my name, sir, and perhaps I could be of some assistance by saying that what he has outlined to the Board is precisely what I had in mind. And that was to fix a time when all parties irrespective of how long their dates for hearing were in the future should appear and present their evidence on this question of reserves and deliverability. That is not to say, sir, that the Prairie Company should not be permitted to adduce evidence on the 9th of October if they so desire. Reference has been made to the fact that I was sad in June because they spent no money. I am glad now in September that they have. I am sure the Board will be very happy to hear any evidence that they would like to adduce. The same, I think, might apply to Mr. Martland if he so desired to go on with any evidence that he has at this stage, but my idea was to fix a time limit and that would be particularly hard on those who have applied recently or who are about to apply, but in spite of that, I thought that a month hence would give them an opportunity to come forward, and that is the reason why I was willing to surrender the date which had been allocated to my company.

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MR. BRUCE SMITH: May I just add this, sir, with respect to what Mr. Martland's application really means. May I refer to his letter. These are the words in his letter, the last sentence of the third paragraph:

"The choice of the pipeline route should, in our respectful submission, be left to the Board of Transport Commissioners."

MR. MARTLAND: Read it in its context. Read the whole paragraph.

MR. BRUCE SMITH: I will read the whole paragraph:

" We would respectfully suggest that it would be in the interest of all applicants and of the Board to curtail the presentation and cross-examination of evidence on routes, pipeline design and cost. We would also recommend that the Board, after hearing all pertinent evidence, might determine the existence or otherwise of an exportable surplus of natural gas and, if there should be a surplus, determine, with the approval of the Government of Alberta, the conditions and provisos necessary to protect the interests of the people of Alberta and of Canada. The choice of the pipeline route should, in our respectful submission, be left to the Board of Transport Commissioners.

The Petroleum and Natural Gas Conservation Board and the Provincial Government, having thus determined the conditions under which an export

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"permit might be issued, could let it be known that such a permit would issue after the Board of Transport Commissioners had approved the route and the Department of Trade and Commerce had authorized export of natural gas, if outside of Canada. "

Now, sir, if that does not mean that the selection of the route, and therefore of the company, is to be made by the Government of Canada and the Board of Transport Commissioners, and that it is to be a formal matter, then when we come back eventually before this Board, and it would automatically follow that the permit here would be granted to the company which has been approved at Ottawa, then, sir, I am afraid I am incapable of interpreting properly the meaning of those two paragraphs I have just read.

MR. NOLAN: It has been suggested to me that you might be under a misapprehension when I said Prairie and Western Pipelines could proceed with their applications. I meant that those applications should be curtailed to these particular topics we have been mentioning, namely, reserves and deliverability, because if other people coming forward in future were to be curtailed in their presentation of evidence to those topics it would seem to me to be useless to go into those matters now with these two companies on the dates of the 25th of September and the 9th of October.

THE CHAIRMAN: The Board has not had time to study what has been said. Had you something, Mr. McDonald?

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MR. D.P. McDONALD: Just one thing. I was just going to suggest in regard to the point last mentioned by Mr. Bruce Smith that all this Board requires with regard to route is the filings suggested. I think my suggestion is one that would meet all of the applicants' wishes.

THE CHAIRMAN: All right, we will adjourn for about 10 or 15 minutes.

(At this time the Hearing took a short adjournment.)

THE CHAIRMAN: All right, I think we might proceed with the cross-examination of the witnesses.

MR. MARTLAND: Very well, sir. I ask Mr. Lewis to come back.

JAMES O. LEWIS, (recalled)

already sworn, cross-examined by Mr. Fenerty, testified as follows:

Q Mr. Lewis, had you familiarized yourself with anything that has gone before in these enquiries we are taking to determine export?

A Only to a partial degree. I have left that to Mr. Hawthorn. He has gone into the details.

Q If you have read any of the evidence and statements and so on you would have gathered, I take it, that all of those heretofore seeking export have adhered to the suggestion that local consumption, by that I mean Alberta consumption, must be protected both as to reserves and prices. Assume for the moment that that is so with-

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out necessarily saying it is so. I rather gather from the method of approach that you have adopted that you are propounding a method which you hope or think will accomplish the protection of local consumption, both as to reserves and prices. Is that correct?

A We did not give any consideration to prices. We considered that outside our province. Of course, we did think as we went along what the affect of various conditions and various proposals might have generally, but we did not consider prices within the province in our investigation.

Q Let us take reserves, for instance. I notice you have in effect allocated certain areas, certain proven areas, to certain consuming areas. For instance, you have allocated, in effect dedicated, Jumping Pound to the Canadian Western distribution system?

A You are wrong there. We did not try to dedicate anything, we simply took the information which we had as to what we understood was committed to various communities and for various purposes. We have not examined all the contracts and did not pretend to know detail about the various contracts and commitments that had been made.

Q You have made no effort then to formulate a plan which gives any protection to anybody other than export? Is that the corollary?

A We have not gone at it that way, Mr. Fenerty. We have simply recorded what we found from the evidence which we did examine on reserves which apparently were committed to various purposes and we have segregated them from those on which we had no evidence of their commitments.

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Q I see?

A We have approached that from the factual basis rather than from the basis of policy.

Q No question of economic factors, advisability or anything like that?

A No, we haven't questioned it. We may have developed opinions with regard to some of these matters, but we felt this matter of allocation of reserves between different or various communities was one without our province and would be within the province of those concerned and I would think it would be within the Commission's province.

Q But is it true, - I don't want to take in too much territory - but is it true that you have not concerned yourselves with local problems at all?

A Well, we have observed.....

Q What is that?

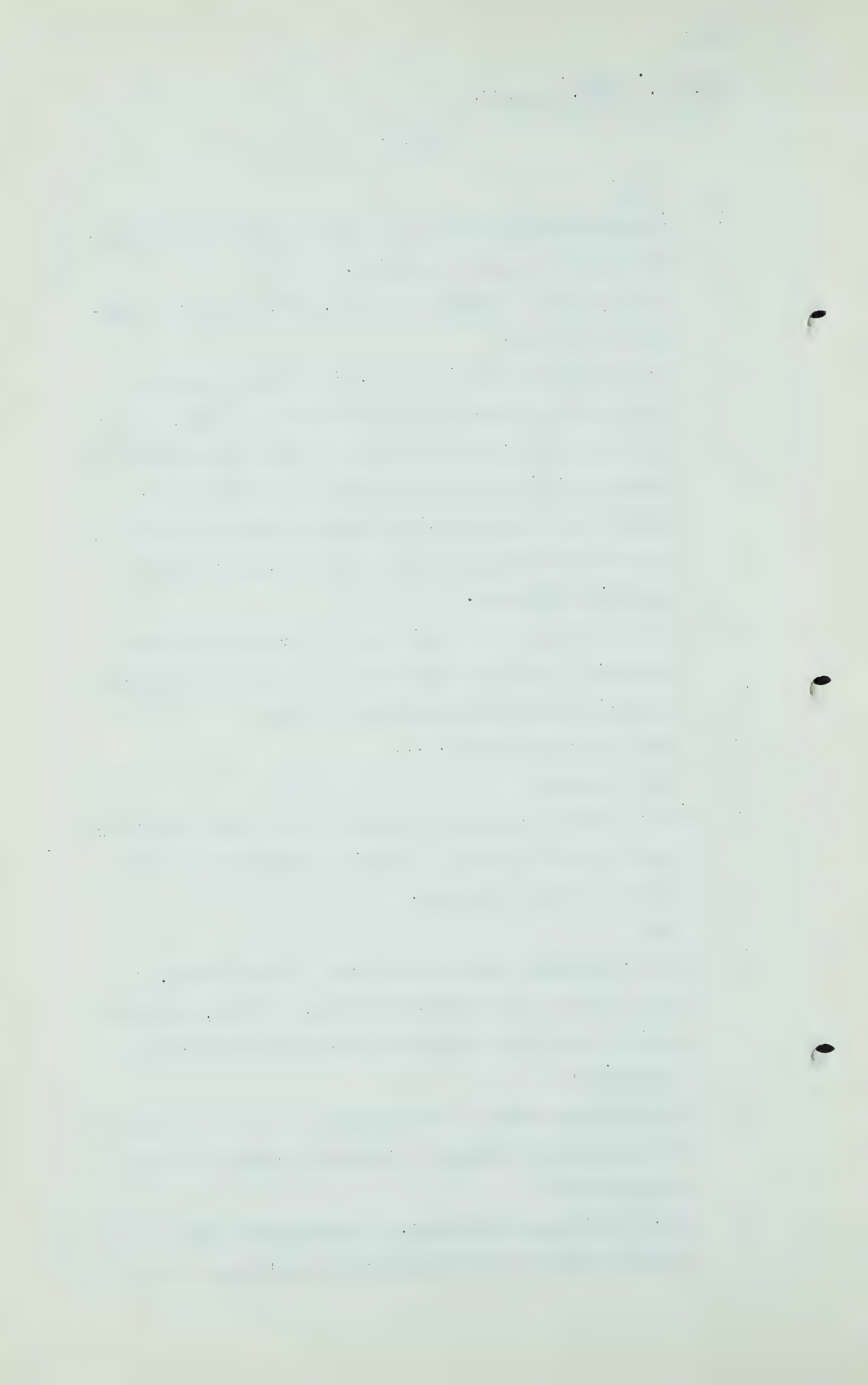
A Well, we have observed from the records and would know about it, the position of various communities with respect to their reserves.

Q Yes?

A And Mr. Hawthorn will go into that in more detail. We have noted in our conclusions filed, I think, that the reserves were quite different as between different communities.

Q But you have given no consideration as to the impact on the reserves you propose to take for export on local consumption?

A Well, our report is factual, and while we have our own opinions which we have necessarily developed in the



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course of our work, we have not tried to advise the Commission on that point.

Q Let us see if we can get down to something concrete. You have concerned yourself, you tell us, with the supply of gas for export being adequate to finance a pipe line for a twenty year period. That was your concern?

A Our concern was to determine how much reserves there were which presumably were not committed and presumably were available for export.

Q Now, let me repeat again, you have concerned yourself, haven't you, with showing an adequate supply of gas for a period of twenty years which you deemed necessary to finance the pipe line?

A Would you repeat that question, please?

MR.FENERTY: Would you read my question?

BY THE REPORTER: "Now, let me repeat again, you have concerned yourself, haven't you, with showing an adequate supply of gas for a period or twenty years which you deemed necessary to finance the pipe line?"

A We have, yes, in the way that I mention.

Q MR. FENERTY: You have?

A Yes.

Q And you are concerned with that irrespective of the fact and without any particular inquiry as to the effect of that on local consumption, that is correct, isn't it?

A We have considered those reserves which were committed and those which were not.

Q Now, Mr. Lewis, perhaps this is the proper time for me to say something to you, because you have just heard the



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discussion that we are going to try and expedite matters. I have spent five years cross-examining experts, and I have had pages of answers to questions that required a simple "yes" or "no" answer, and I am going to tell you now, to expedite matters, if you think you can do it, if there is a question that you are asked if you can give me a simple "yes" or "no" answer, a direct "yes" or "no" answer to it, try and do it, because I will keep on with it until I get the answer.

A I will answer the questions that can be answered that way.

Q And will you answer the point, and not some other, that I am asking?

A I will answer the point if I can answer it.

Q All right, we will get along now. Is it your opinion, Mr.Lewis, that the way to give local consumption protection as to reserves, is to have certain areas allocated to them?

A Would you repeat that?

BY THE REPORTER: "Q Is it your opinion, Mr. Lewis, that the way to give local consumption protection as to reserves, is to have certain areas allocated to them?"

A You mean, is my opinion that each community should have allocated specific reserves?

Q MR. FENERTY: Is it your opinion that the most adequate way to protect that local community as to reserves is to allocate a particular area for their consumption?

A No, it is not my opinion.

Q That is the answer to that. What, in your opinion, is

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the way to protect them as to reserves?

A The best way to protect the communities of Alberta would be to put in a grid system so that instead of being dependent on one reserve, and no matter how carefully you estimate reserves there is always some chance of error, that they would draw upon a common supply, therefore they are measuring or averaging out the areas, they are sharing those, and there is a more durable supply, and there are various other things which can happen to a field besides wrong estimates of reserves.

Q I see?

A They get into producing troubles, so that instead of relying upon only one field for any community I would advise them not to if they can avoid it, and I would advise them to tie into a general system.

Q I see. Yes. And at whose expense would such a grid system be provided?

A I presume that everybody who benefitted from the grid system would pay their just proportion of expense.

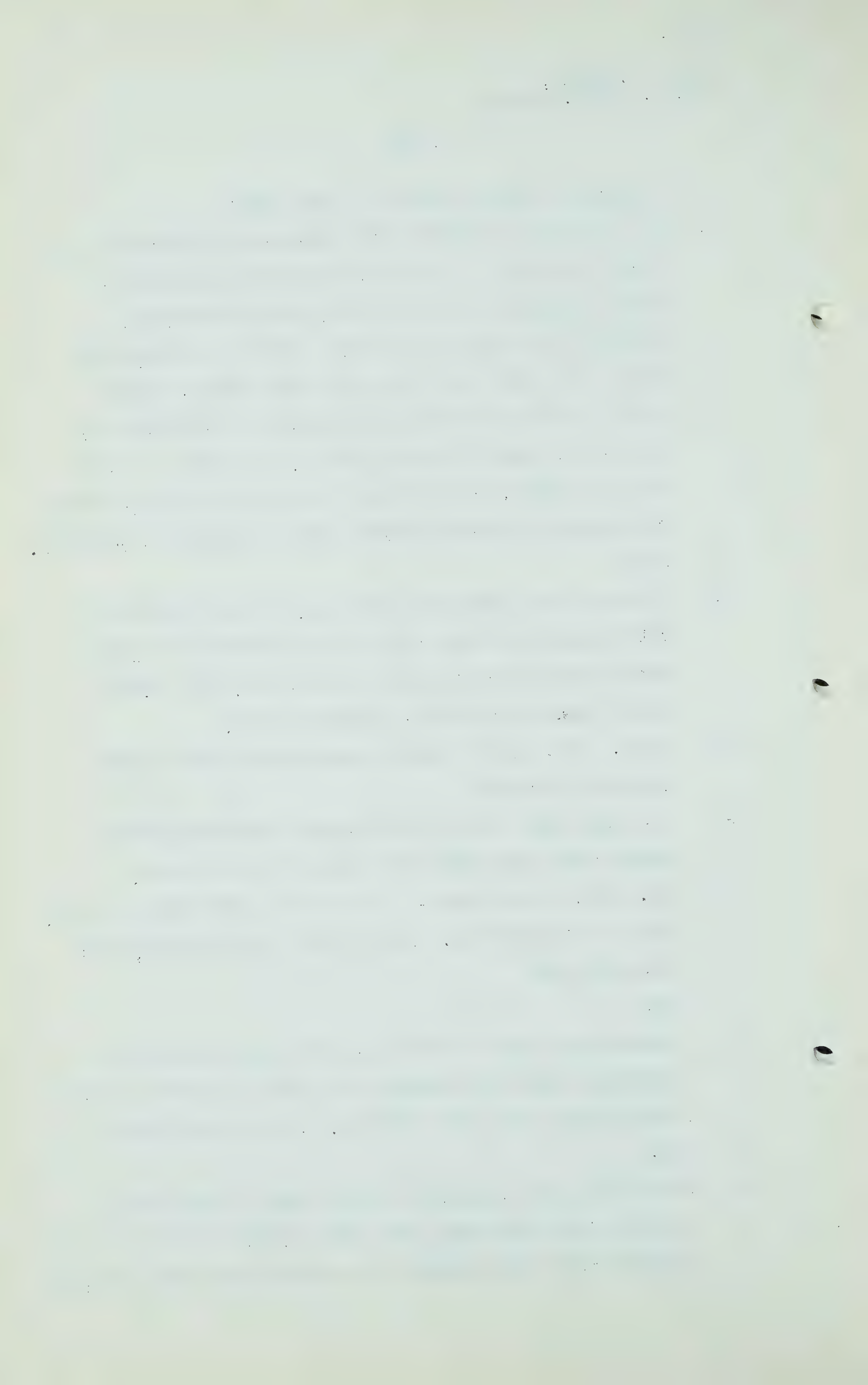
Q Yes. Now, let us take - I am getting away from my notes, but it is interesting. Let us take a simple case, will you, with me?

A Yes.

Q Assuming you have a reserve or reserves adjacent to a community which are adequate for thirty or forty or fifty years' supply for that community. Just assume that?

A Yes.

Q And assume you proposed to divert some of that gas to export, with the result that those reserves ceased to be adequate for that community for perhaps more than twenty



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year. It is all hypothetical?

A Now...

Q You have been used to hypothetical questions pages long, I know. And your answer to that, and assuming your answer to that is a grid system, under such circumstances who would pay for the grid system?

A Well, I think I have answered that that it is whoever benefits.

Q What is that?

A I think I have answered that question.

Q I don't think you have?

A Well, those that benefit from the grid system should pay for it.

Q That is, the ones who use that gas that was available to the community and has been taken away from them should pay for it?

A I find myself confused.

Q Perhaps I am confused. Let me start all over again.

A Yes.

Q You have a community and you have a gas supply for fifty years. That is plain, isn't it?

A Yes, fifty years.

Q Yes. And you use two-thirds of it for export?

A Yes.

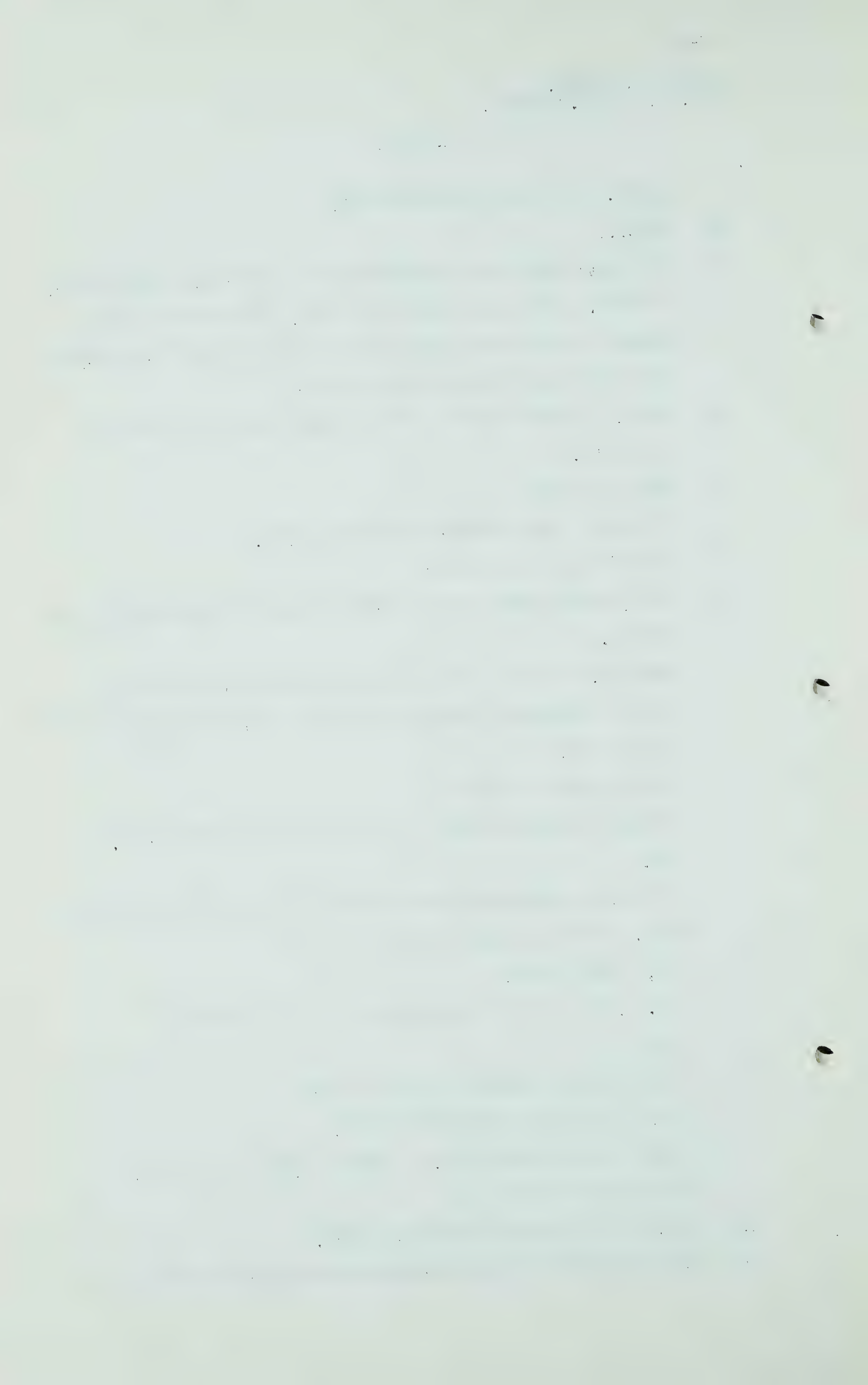
Q You know what export is, don't you?

A Yes, but I have not assumed that.

Q Please try to assume it. Please try to. Can you assume that now?

A Yes, I can assume that if you wish.

Q Assuming you have used two-thirds of it for export,



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three-fifths of it for export, say?

A Yes.

Q That leaves you a supply for the community for twenty years instead of fifty years, doesn't it?

A If that is a proper statement, or a proper disposition of the other thirty years' supply, yes. That is simple arithmetic.

Q All right. And you have got to get that thirty years' supply that has been taken away, from a grid system from some other place?

A From some other place, yes.

Q All right. Who pays for the grid system for the thirty years? The community had the gas and it was taken away for export?

A I think I have answered that question.

Q Who should pay for it?

A Those who benefit.

Q According to me it is the exporter that benefits, isn't it?

A I beg your pardon?

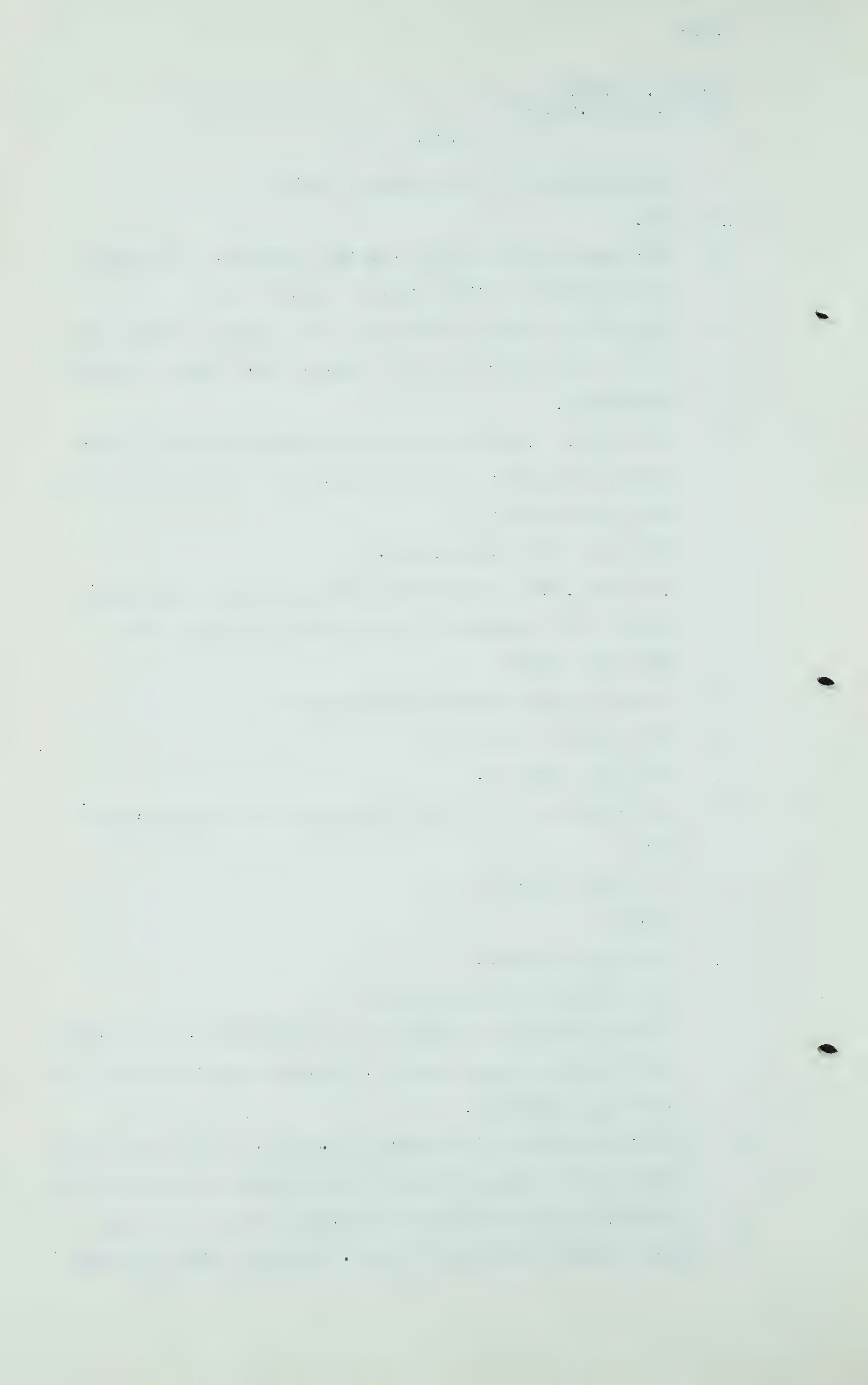
Q Pardon?

A I beg your pardon?

Q The exporter benefits from it?

A It would vary under different circumstances. They would both benefit to some degree, otherwise there would not be any such agreement.

Q Don't think this is unusual, Mr. Lewis. I have had twenty experts come from outside of Alberta and tell me the same thing, "You put in the grid system, you will get your gas, somebody will pay for it." What you are concerning



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yourself with, there is the investment for a twenty-year period, but do not let us get into that again, because I do suggest to you if you are going to give any effective evidence for your clients, you have got to show somewhere where local consumers are not going to get crucified as the result of export, and I wish you would show me?

A I think, Mr. Fenerty, I have answered that as well as anybody can at this time. You are getting into specific conditions which cannot be worked out until specific needs are known. Also what you are implying is that I bargain for your supposed community. They have got to bargain for themselves, I presume, or somebody has to settle that question. An expert cannot settle that.

Q I misunderstood you. I really thought that your exposition was based on the allocation of certain areas for local consumption?

A I did not say anything in my report here which justifies you in assuming that, Mr. Fenerty. At least, if it is it is poorly worded.

Q I may be wrong, but that is the way I read it. You say now that certain things are not available because you understand there are contractual obligations, is that it?

A We said in this report that we understood that certain fields were committed to certain communities and that, therefore, we presumed they would not be available for export.

Q We will take it now presently on that basis. We will assume that you are correct, how is that?

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A I did not hear you.

Q We will assume that you are correct, that these supplies that you say are not available are not available for export, that is fair enough, isn't it?

A Oh, yes.

Q All right, we will go on from there. I just thought that you were allocating them.

A No.

Q But now I understand that you had information that they were not available, that is the only difference?

A Pardon?

Q But now I understand that you had information that they were not available, that is the only difference?

A We are not even sure that that information is complete and wholly correct.

Q What?

A We are not even sure that that information is complete and wholly correct because we did not go into the contracts.

Q But you are willing to take it with me on the basis of your own assumption that those other areas are not available for export?

A Yes.

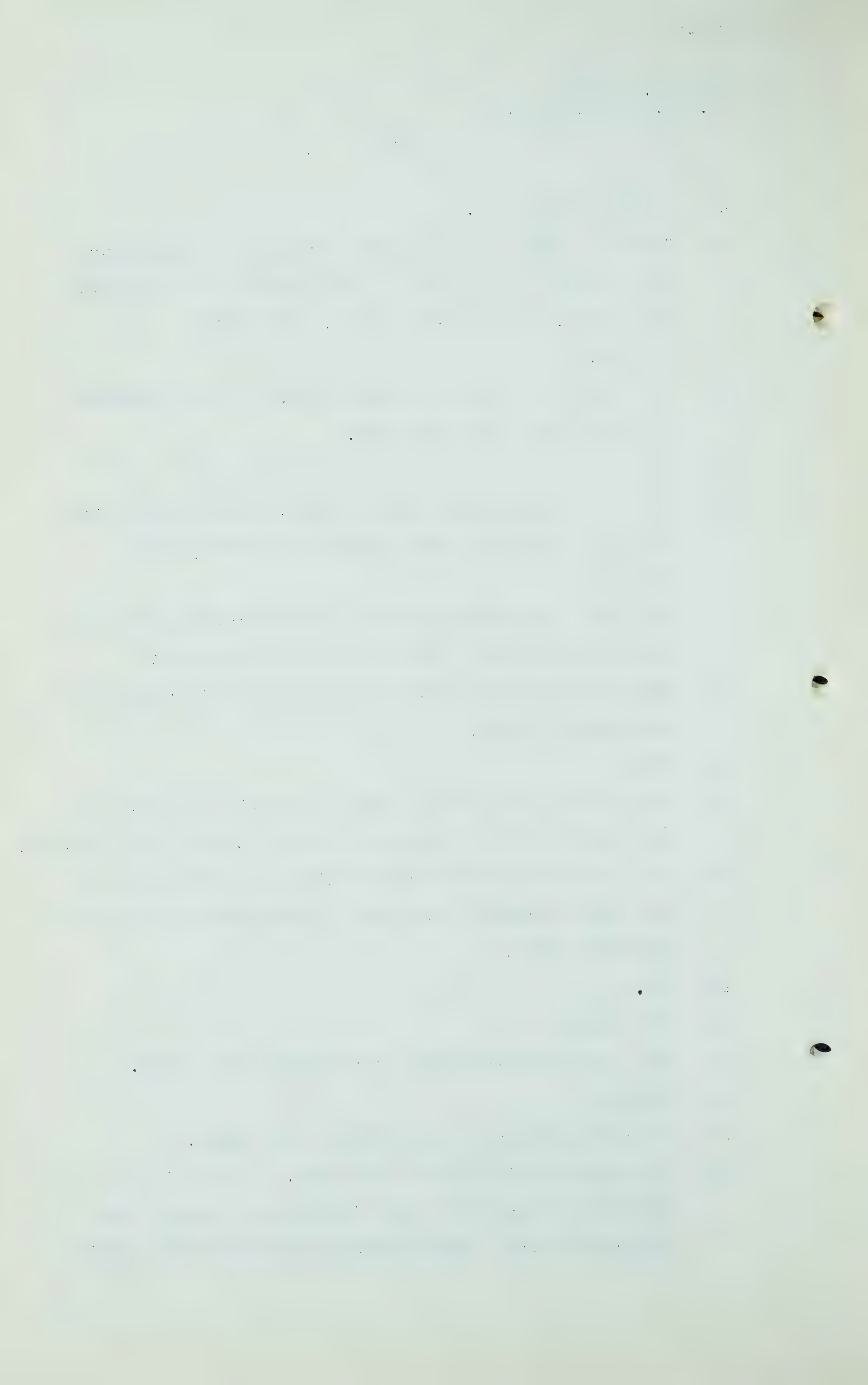
Q For export?

A Yes, we presume they are not available for export.

Q Pardon?

A We presume they are not available for export.

Q All right, we will go on from there. Are you in a position to speak for your clients as to whether they subscribe to the theories subscribed to by other appli-



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cants that if there is export local consumers should be protected both as to reserves and price?

A Would you repeat that?

Q Will you read my question?

BY THE REPORTER: "Q. All right, we will go on from there. Are you in a position to speak for your clients as to whether they subscribe to the theories subscribed to by other applicants that if there is export local consumers should be protected both as to reserves and price?"

A I am not authorized to represent my clients, to speak for my clients on matters of that kind.

Q MR. FENERTY: And just so that I will clear the matter up as to the question of price, when you talk about economic production, how long you can produce a well and all that, were you then concerned with matters of price?

A Yes, very much so.

Q Pardon?

A Very much.

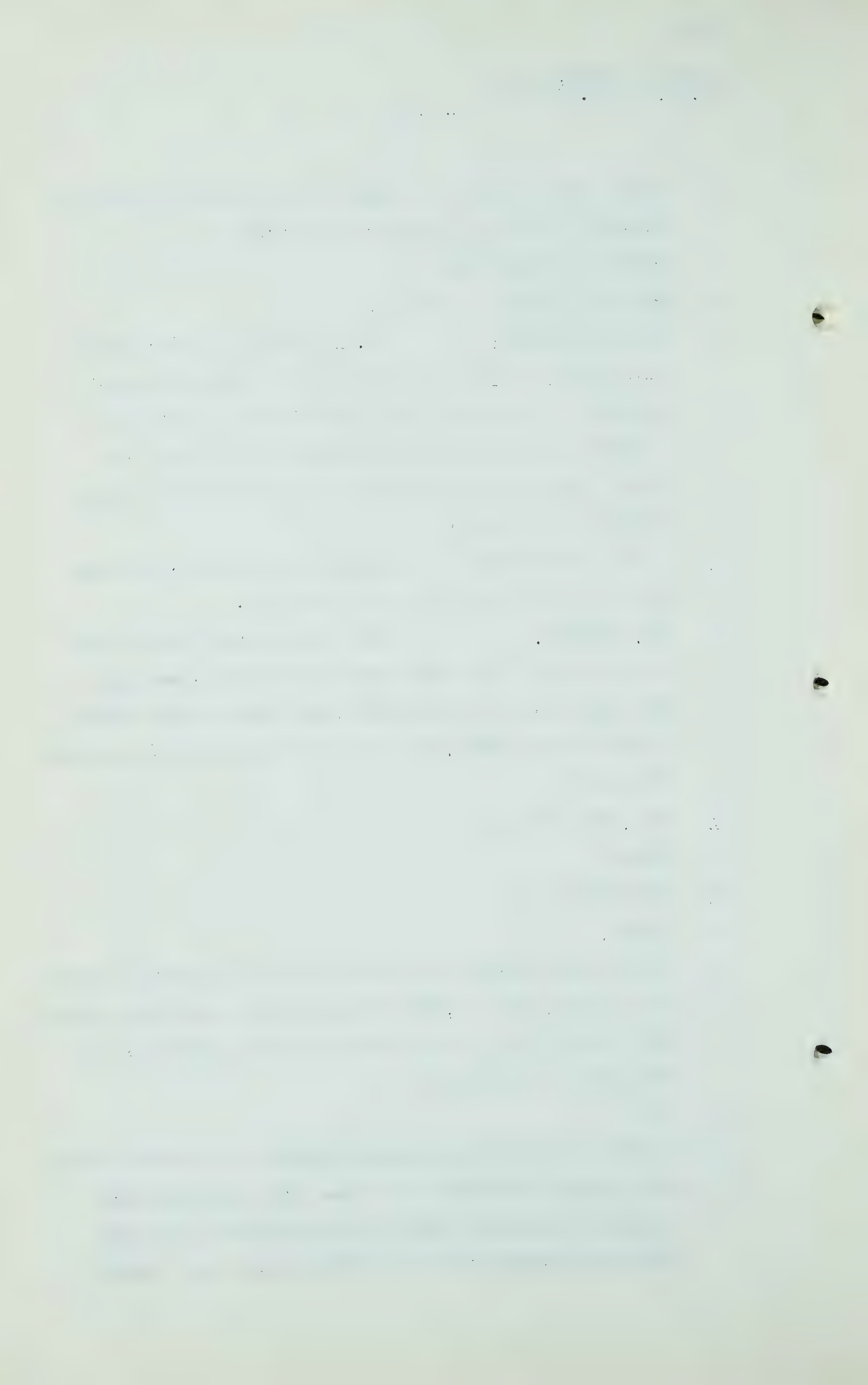
Q I see.

A Because the termination of the life of a gas well is based upon price, that is, when the output of a well, the income from a well daily is less than the daily expense, then that well is abandoned.

Q Yes?

A So that price is a necessary function of deliverability.

Q And when you referred to the time and everything when economic production could not be continued, and spoke about the relaxation of the 25% rule, had you worked



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out the price in the result?

A No, we just assumed a reasonable price and we considered that while we might be wrong and probably were wrong, on any price we could assume which would exist twenty years hence.

Q I see.

A The limits of error were well within the limits of other errors.

Q We will come to those prices in a little while. You did consider the matter of price. I am going to jump over two or three things before coming to what I hope is a sequence in cross-examination, and that is at Page 5 of your report, the middle of the second paragraph?

A Yes.

Q Where you say,

"Having witnessed the exploration and building up of proved reserves in other regions, we attach much importance to the potentialities of such a region with respect to the future needs of Alberta",

I am sorry,

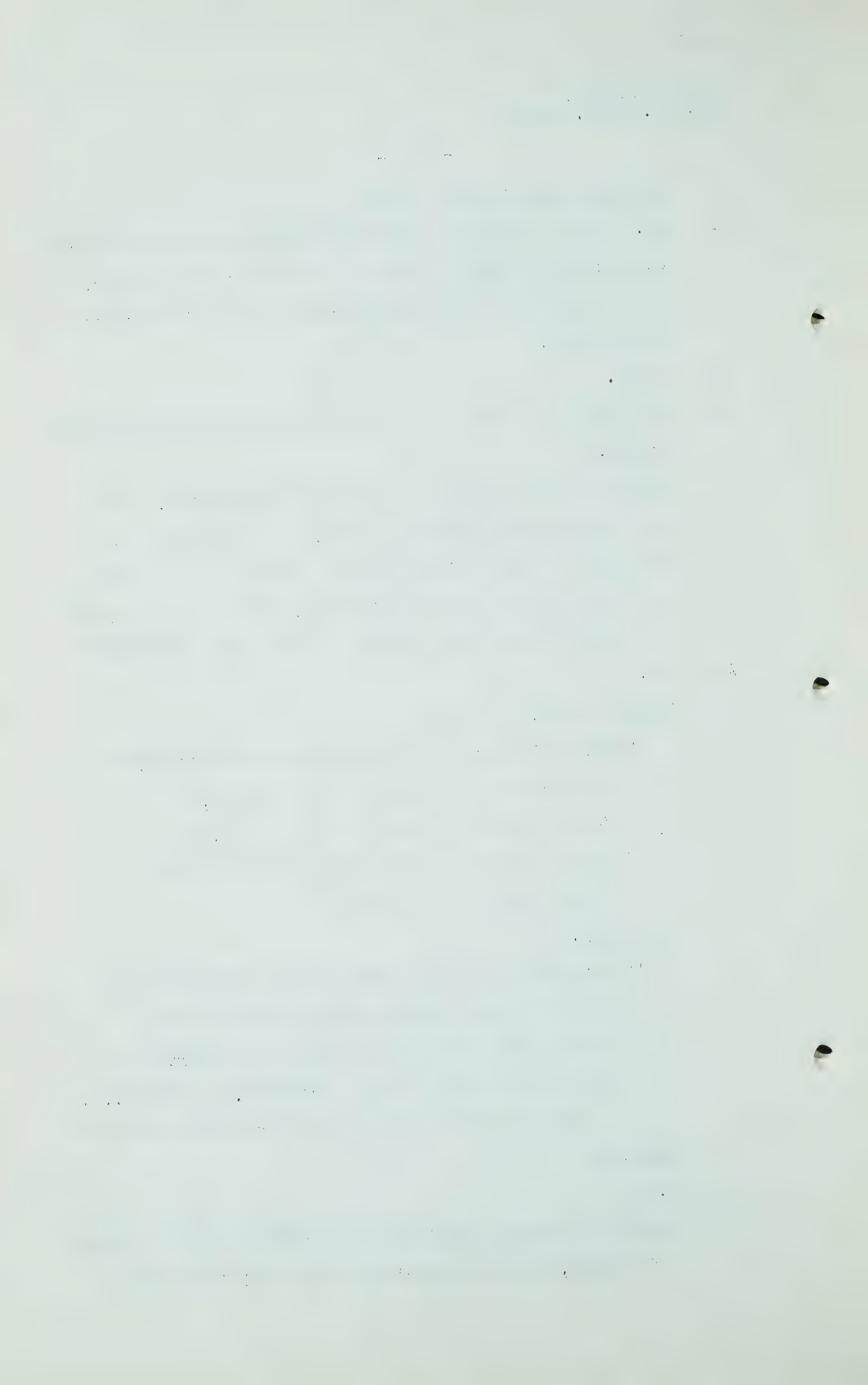
"we attach much more importance to the potentialities of such a region with respect to the future needs of Alberta than to what reserves the few wells have so far discovered. However".....

That is with reference to the future needs of Alberta?

A Yes.

Q And then contrast that with the present needs of export?

"However, having participated in the initiation



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"of a number of large gas lines, we are fully cognizant of the need for proof of enough deliverable gas for long enough to enable a pipe line to be financed, and we have carefully considered this phase of the situation."

A The seeming conflict.....

Q Pardon me?

A The seeming conflict between the two answers were very carefully weighed before we read this report.

Q I do not think there is any conflict. I did not think there was a conflict.

A There is in this way, that we are asking in one sentence the people of Alberta to rely upon reserves which are yet to be discovered, at least, to some extent; whereas we point out that the bankers will not do that, that they will require that you have proved reserves for financing purposes.

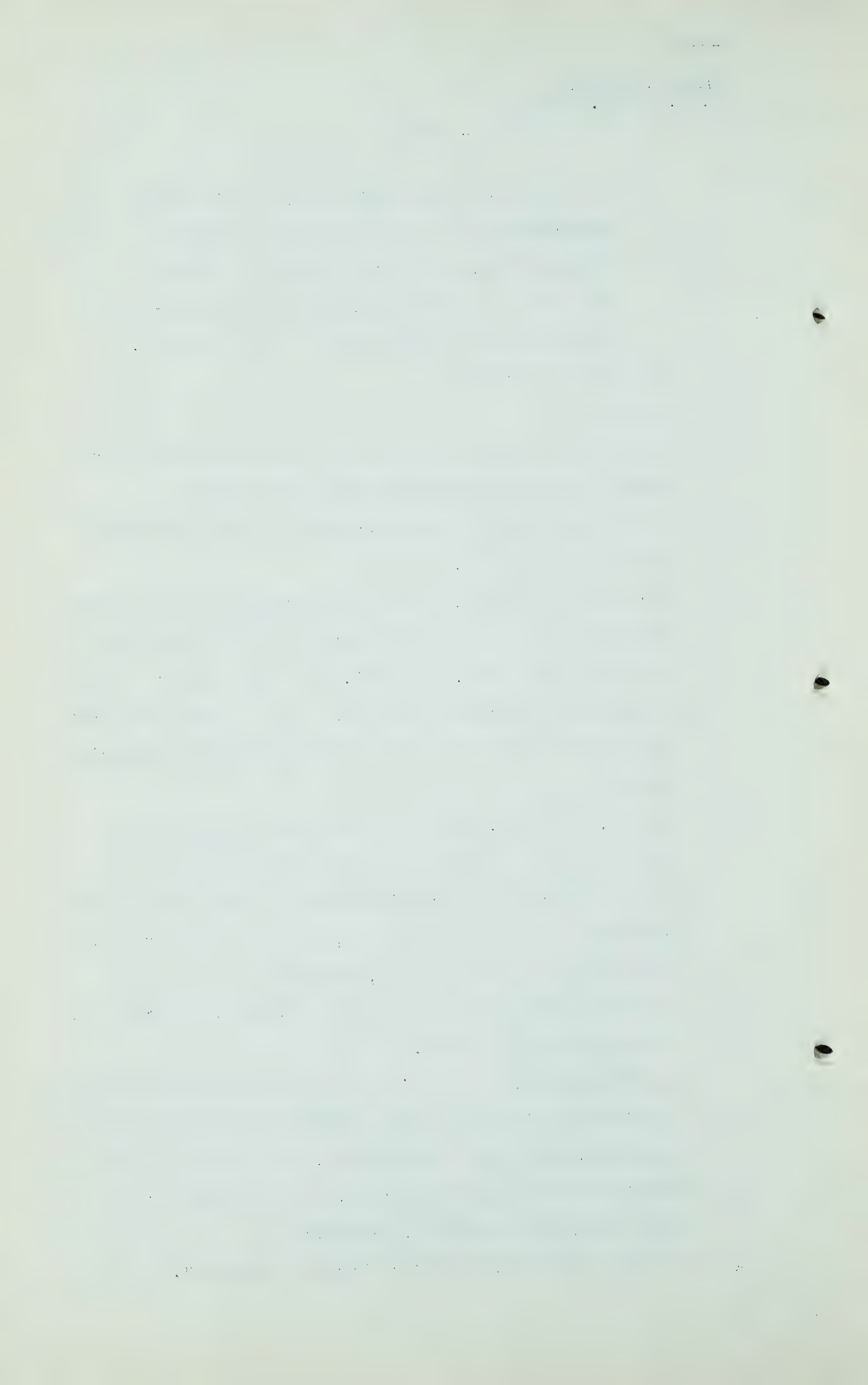
Q Exactly. Exactly. And your position is that if this pipe line is to be built and gas exported and you are to meet Federal Power requirements, you have got to have priority on the proven reserves, is that plain or not? Just answer me that question, please?

A I did not quite get your question. Would you repeat it?

Q The reporter can read it.

BY THE REPORTER: "Q. And your position is that if this pipe line is to be built and gas exported and you are to meet Federal Power requirements, you have got to have priority on the proven reserves, is that plain or not? Just answer that question, please?"

A I didn't get one word before "proven reserves".



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BY THE REPORTER

"Q. And your position is

that if this pipe line is to be built and gas exported and you are to meet Federal Power requirements, you have got to have priority on the proven reserves, is that plain or not? Just answer that question please?"

A Just what do you mean by "priority"?

Q MR. FENERTY: A firm committal, contractual obligation.

A If you are going to finance a line or going before the Federal Power Commission, you have to show contracts for the reserves, not necessarily for the full twenty years, but for a long enough period that both the bankers and the Federal Power Commission will think that you are safely contracted for the life of the project.

Q And that means, doesn't it, with respect to those areas from which that gas is being obtained, that export must have priority over local consumption?

A No.

Q Oh?

A It may have nothing to do whatever with local consumption.

Q Oh?

A If you have your sources of supply, it may be entirely independent of local consumption, and in our report here we have assumed that only those gas supplies which are not committed to local consumption will be available to export.

Q Yes. Yes. I see. And you are not proposing to take any gas from any area committed to local consumption.

A Will you kindly repeat that?

Q What is that?

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A Will you kindly repeat that?

Q The reporter can read it?

BY THE REPORTER: "Q. Yes. Yes. I see. And you are not proposing to take any gas from any area committed to local consumption?"

A Well, I wouldn't quite say that, because we are not in a position to say that, but we have assumed in here, or rather we have shown what reserves were committed and so on. Now, it might be later on, we are not in a position to say, that some agreement might be made we don't know what agreements could be made, between various communities. They might be willing to give up some of the reserves; we do not know.

Q I see. What I am trying to find out is, and perhaps the Board may think that I am going far afield, I am trying to find out just what it has got to do with the export of gas. Now, I am not trying to talk about Winnipeg, I am talking about Minneapolis and St. Paul. First of all, you have got to meet Federal Power Commission requirements, haven't you?

A Yes.

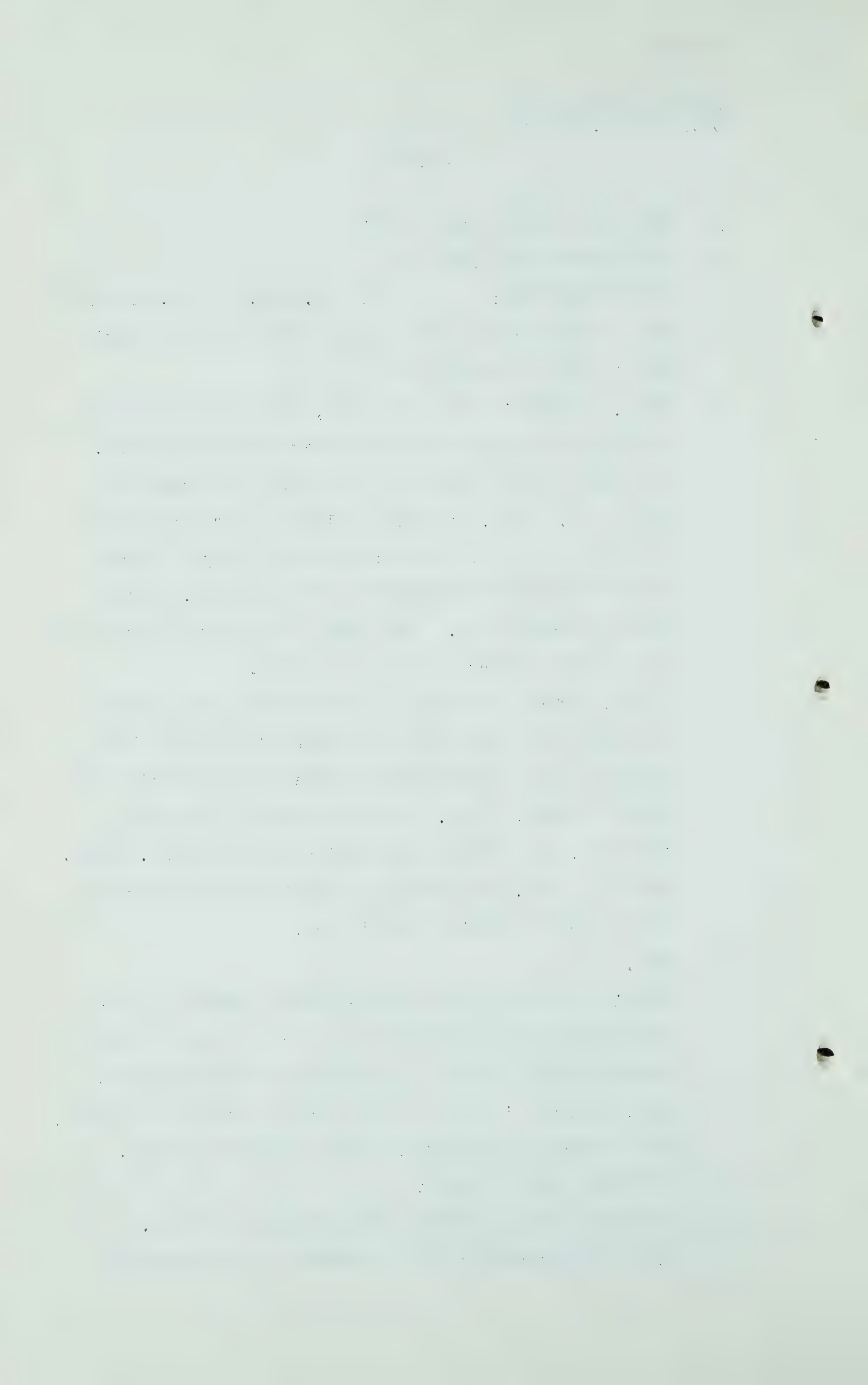
Q And if you cannot meet Federal Power Commission requirements, on your submission we are wasting our time trying to get a permit to export gas to Minneapolis?

A Yes. I wouldn't say you would have to satisfy it first, but you have to satisfy it before you got through.

Q You would have to what?

A You would have to satisfy this Commission first.

Q And you will appreciate I am trying not to waste too



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much time, but I would like to find out how you are going to satisfy the Federal Power Commission. I don't know that I will find it from anybody else, and I want to find out from you now you are going to do that?

A I think perhaps I can answer the question by calling your attention to statements....

Q Yes?

A In my report here.....

Q Yes?

A In which we say at the moment we do not think that enough uncommitted reserves are sufficiently proved that it could either be financed or would be satisfactory or acceptable to the Federal Power Commission. I am not sure whether we mentioned the Federal Power Commission in connection with that statement, but I will make that statement now.

Q Yes?

A On the other hand, we pointed out that we thought the gas was here that could be proved up in a reasonable time provided the incentive was given to the operators to go out and drill additional wells, if necessary.

Q Have you thought of going out and doing it?

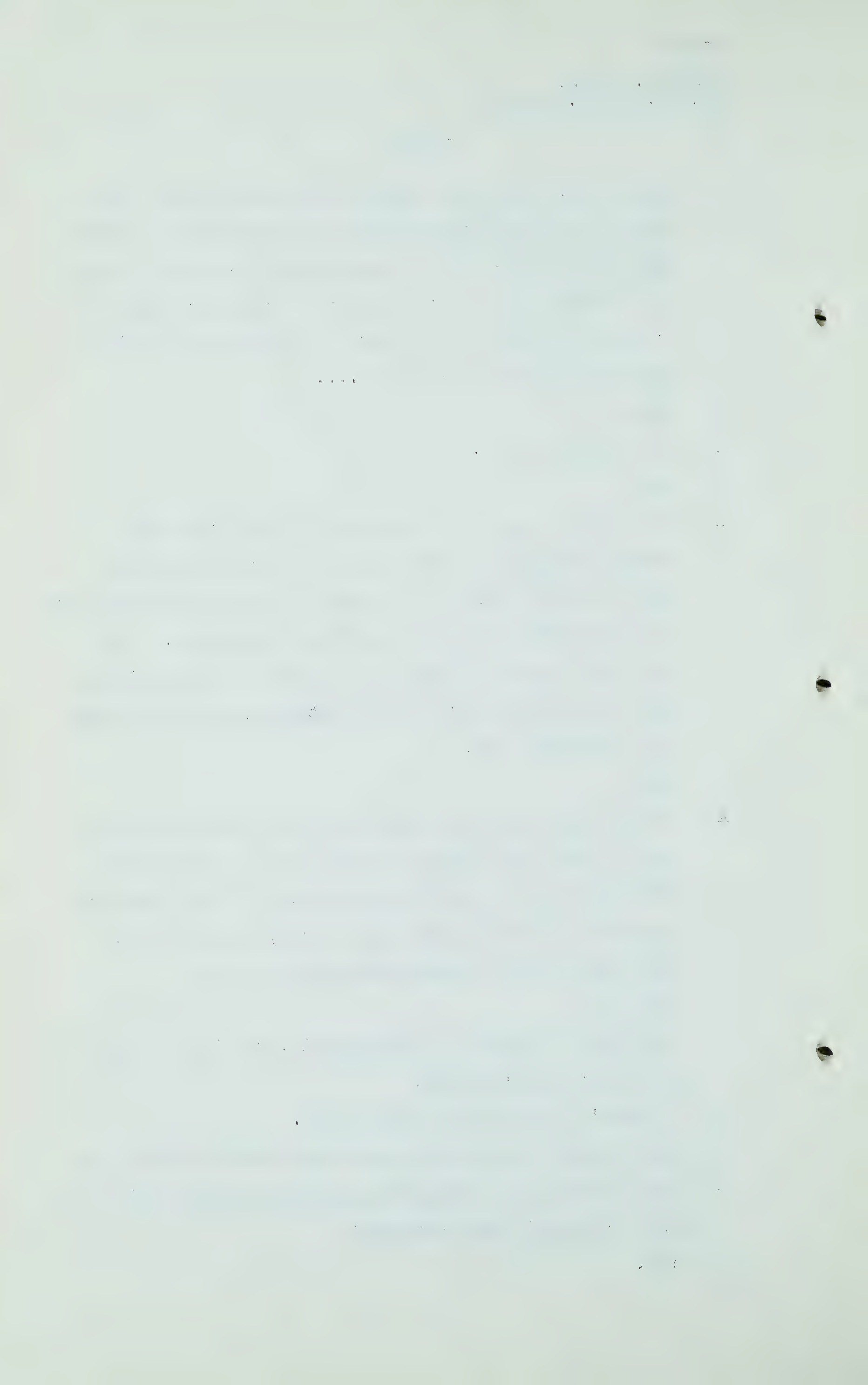
A Pardon ?

Q You haven't thought of exporting it, getting out and getting proven up areas?

A I haven't thought of it myself, no.

Q What you want is a permit from this Board to export and that in turn will stimulate production and that will show that the permit was justified?

A Yes.



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Q Pardon?

A I do not know all the machinery it would have to go through, but in effect that is what I would recommend.

Q But you do suggest that a permit be granted first and then find out about it?

A Well, in some form or other....

Q What is that?

A In some form or other sufficient assurance should be given to those who have to drill the wells that they can safely go ahead and drill them and prove up these reserves, otherwise they take a chance of having an investment in wells that may be lying idle for years. They are not going to do that.

Q I understand your problem, but the proper method of approach is to seek a permit from this Board to export, you then find out - you wouldn't go to the Federal Power Commission because you cannot meet their requirements, but you get a permit, and then you find out whether it is justified by drilling, and if it is justified you go to the Federal Power Commission, is that it?

A Wait a minute.....

Q Is that the procedure?

A When I answered you my concern was not to satisfy but to get what I believe to be before the Commission.

Q I appreciate that?

A So that I am going to insist upon enlarging my answers so that there will be a clear understanding of my thoughts before the Commission whether you like it or not.

Q Well, I may tell you, if I know this Board, that you will have to answer the question, are we clear?

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A Yes.

Q Would you answer my question now?

A I think I have lost the drift of the question.

Q You can tell me whatever you want as long as you answer the question. All right, now, are you prepared to answer it and then I will ask you another question.

A Would you repeat the question or have it read?

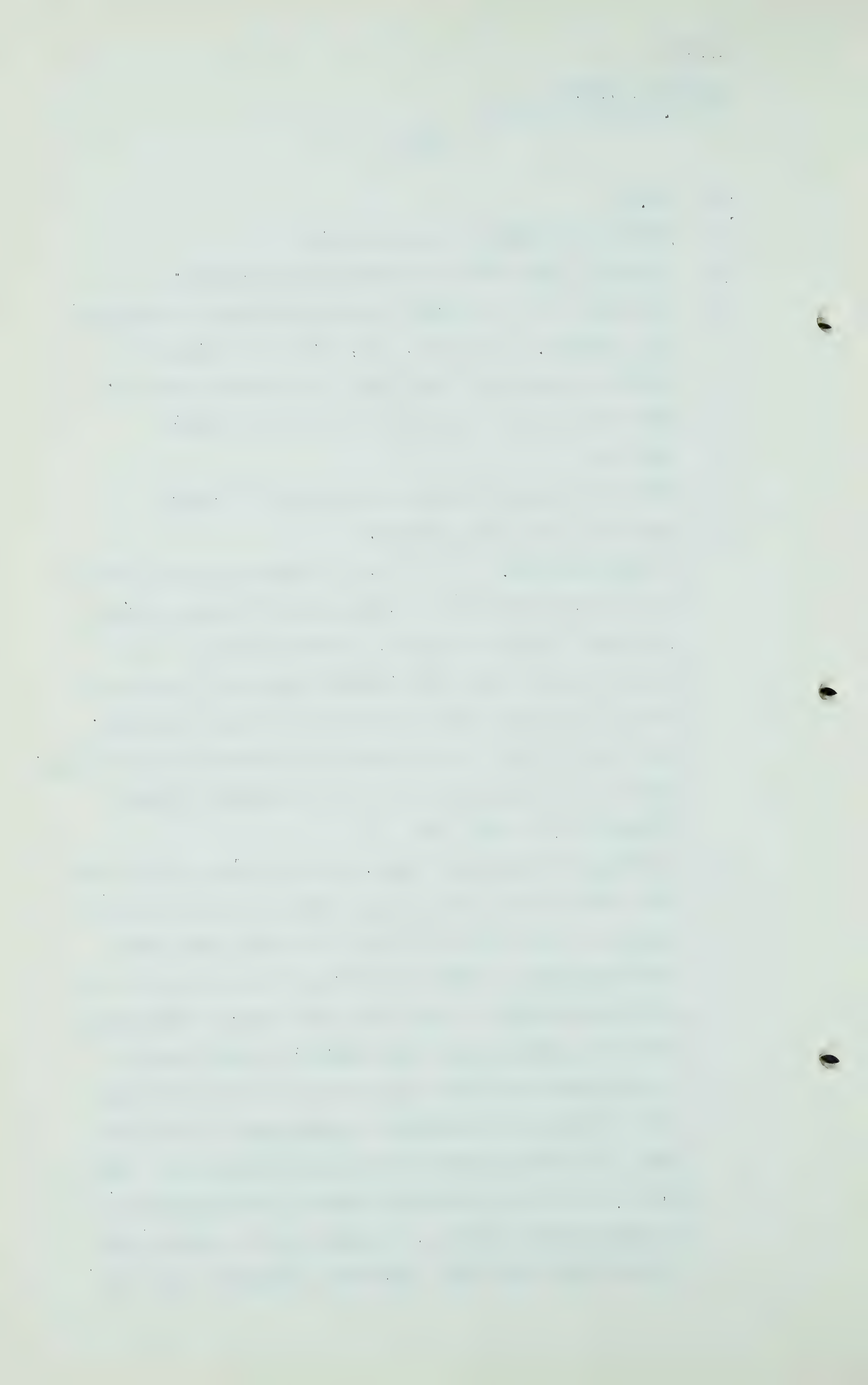
Q Pardon?

A Would you repeat the question or have it read?

Q Would you read the question?

BY THE REPORTER: "Q. I understand your problem, but the proper method of approach is to seek a permit from this Board to export, you then find out - you wouldn't go to the Federal Power Commission because you cannot meet their requirements, but you get a permit, and then you find out whether it is justified by drilling, and if it is justified you go to the Federal Power Commission, is that it?"

A My thought on that was that, first of all, I do not know the laws up here, and I do not know the procedure with regard to the Commission, and I cannot specify the exact machinery by which this can be accomplished, but my thought would be this, that some form of conditional permit be given so that the permittee could then go out and make contracts and be given a reasonable time under reasonable conditions to make good. If he does that, then that permit would be made permanent. Now, that, in effect, is what the Federal Power Commission is doing in the States. It will issue a permit with a time limit, with the applicant having to come back



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and show that he has complied with the conditional requirements before the permit, or the certificate, as they call it, is made permanent, and that would be my suggestion or something along that line, as to what should be done.

Q You say you get a conditional permit from the Federal Power Commission?

A Yes.

Q Which they can use for the purpose of putting in good shape the conditions for getting a permanent permit?

A Yes.

Q I am interested in that. I did not know.

A It is something along that line.

Q There is one drawback here, of course, that maybe you do not know, that it would not work under our Act.

A Well, I am not prepared to say on that.

Q You do not know about that?

A No.

Q That is the situation. But that is your suggestion?

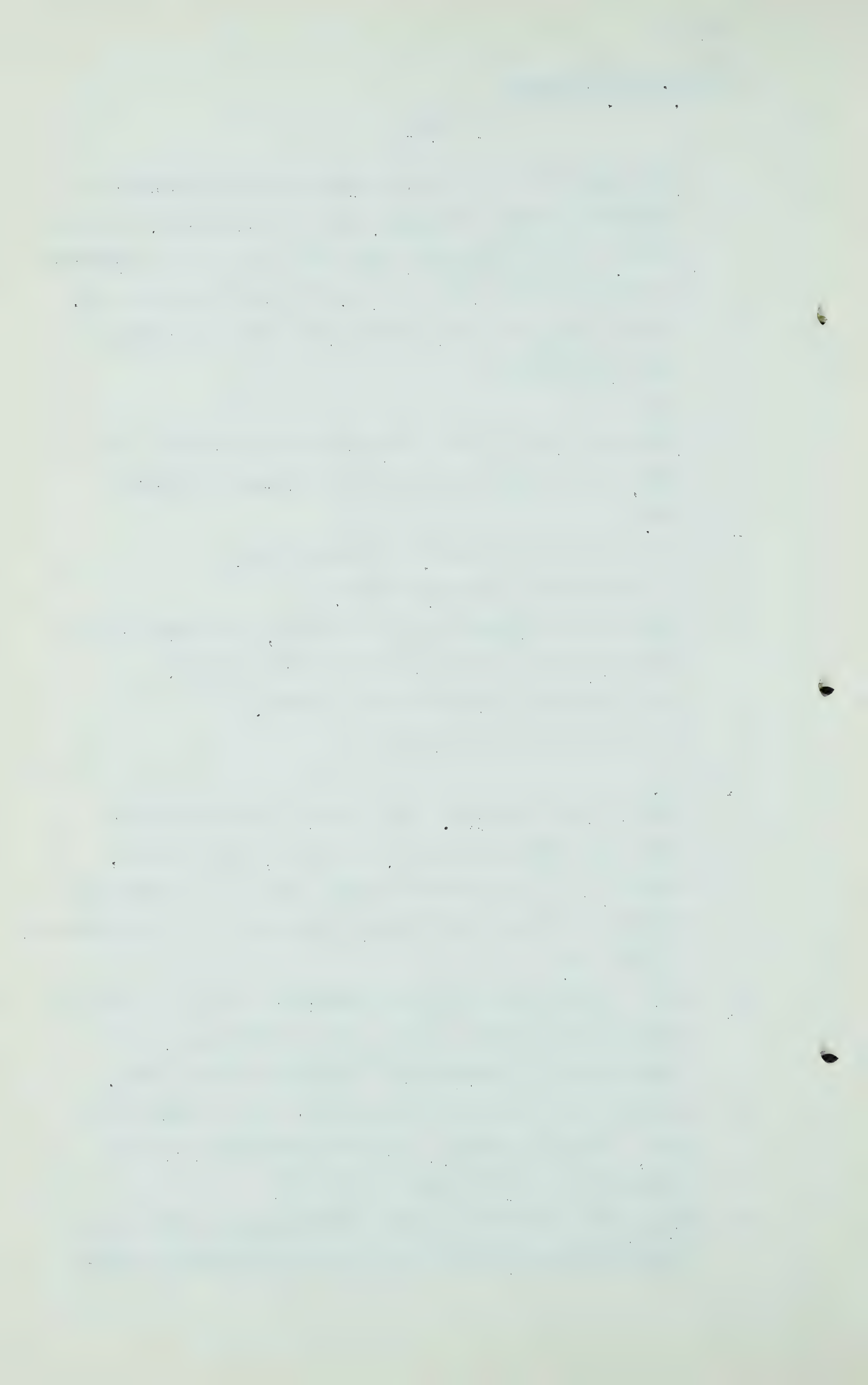
A That is my suggestion that, in effect, that be done,

Q But you feel it necessarily would have to be conditional because at the present time we cannot meet the requirements, is that it?

A Well, I would think that the Commission would not care to give any such permit unless it was conditional. You cannot obtain an open permit for an indefinite time.

Q But you cannot meet the requirements for the supply of gas, a definite supply, and give protection to local consumption, that is clear, isn't it?

A Well, they could set out the conditions, and then if the applicant complied with them within a reasonable length



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of time, they could make it a permanent matter, give a permanent permit.

Q But I do suggest to you that those things would be conditional because at the present time we have not got the data to do it?

A That is right.

Q That is right, isn't it?

A Yes.

Q Yes. Now, we will go on to something else.

A All right.

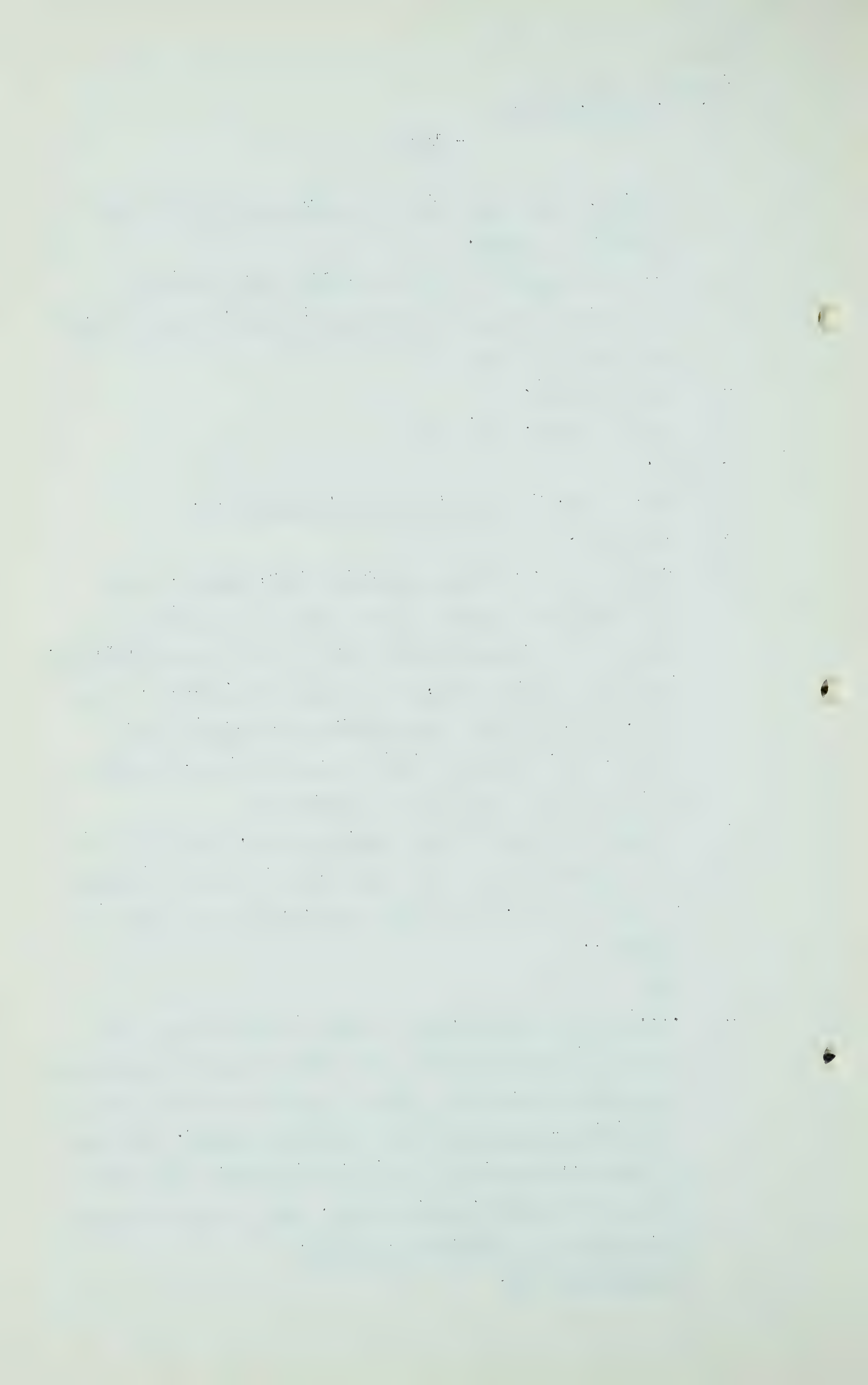
Q And you are - in this paragraph again, Page 5, there is a suggestion there that in order to accomplish its purpose the Province should rely on the future potentialities for future needs, which must necessarily be the case, and you haven't any contractual supplies for export, isn't that the fact of the situation, in that paragraph there are the two contrasts?

A I think the fact of that suggestion is, the effect of that suggestion is, and I have tried to make it throughout this Report, that under the conditions you have in Alberta.....

Q Yes?

Ait is in the incipient stage of exploration, the geological conditions are such that at least we geologists are perfectly confident there is going to be all the gas needed for Alberta for fifty years and longer. If that is the requirement, if you look fifty years ahead from definitely proved reserves today, that is not in accordance with the experience elsewhere.

Q I understand that.



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A May I point this out, Mr. Fenerty....

Q I understand.

A If you are looking ahead fifty years, if you will look back fifty years, fifty years ago there was probably no commercial gas being produced west of the Mississippi.

Q I understand that.

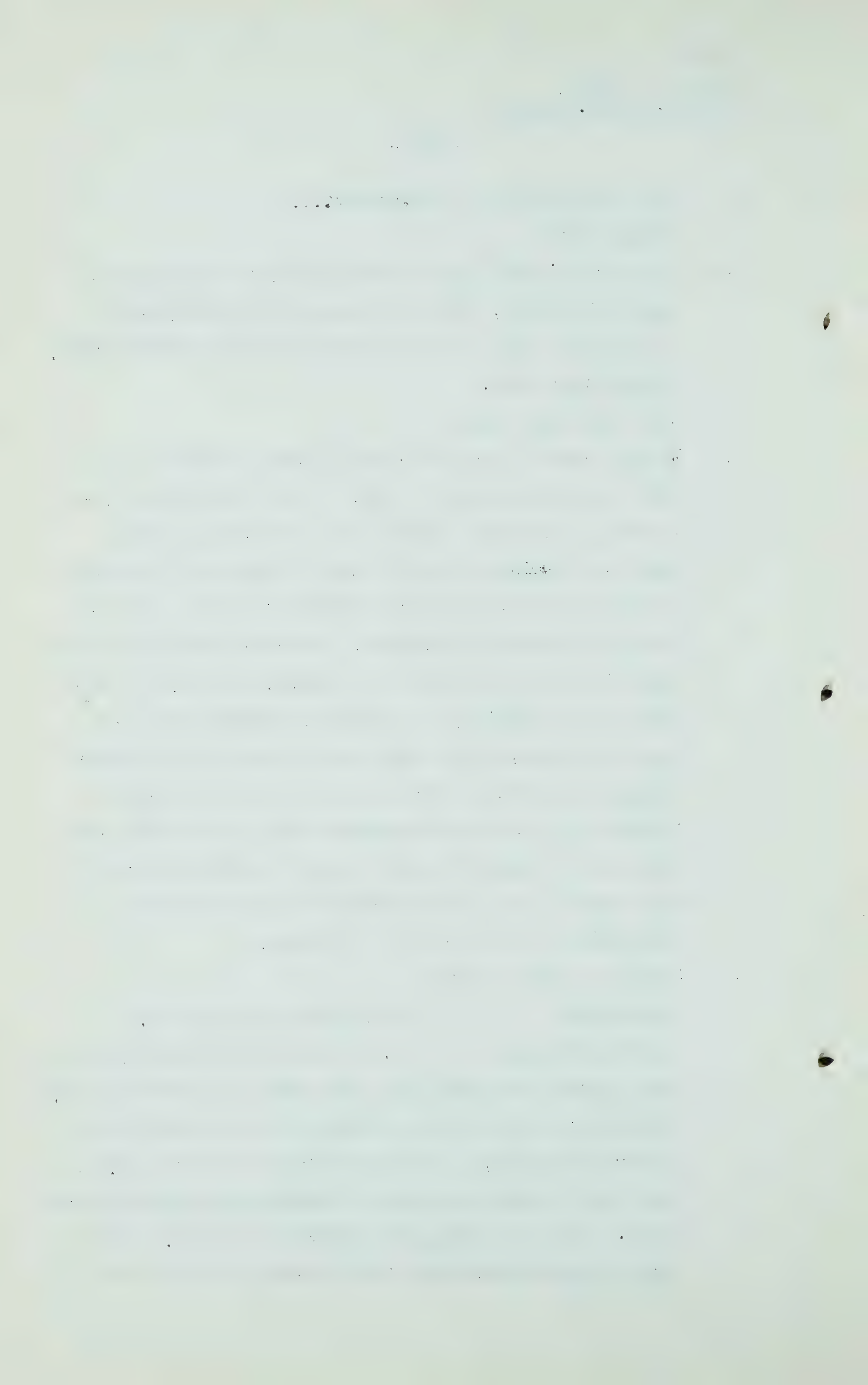
A Which includes Texas?

Q We did discuss this fifty-year figure previously and I have some ideas about it too. I do not propose to put in front of you the question of a fifty-year supply, how you are going to work it out. I have seen disastrous results if anybody attempted to work it out. I am not going to confront you with it. You won't hear me mentioning fifty years to you at this moment. Now, in dealing with future supplies, it has been suggested, and I am rambling around, and I hope I will come to some logical sequence presently, I want to get these preliminaries cleared up, it has been suggested that the Calgary area adjacent to Calgary is, that we are in what geologists call actually in a rather unfavourable area for new discoveries of gas adjacent to Calgary.

A Would you repeat that?

MR. FENERTY: The reporter may read it.

BY THE REPORTER: "Q. We did discuss this fifty-year figure previously and I have some ideas about it too. I do not propose to put in front of you the question of a fifty-year supply, how you are going to work it out. I have seen disastrous results if anybody attempted to work it out. I am not going to confront you with it. You won't hear me mentioning fifty years to you at this



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moment. Now, in dealing with future supplies, it has been suggested, and I am rambling around, and I hope I will come to some logical sequence presently, I want to get these preliminaries cleared up, it has been suggested that the Calgary area adjacent to Calgary is, that we are in what geologists call actually in a rather unfavourable area for new discoveries of gas adjacent to Calgary?"

A Immediately adjacent?

Q MR. FENERTY: Yes, immediately adjacent. Do you agree with that?

A No, not entirely. I do not think that it is unfavourable at all.

Q I see.

A I think there are very good prospects, but I think you have the time factor. It is not likely that this Central Belt area will be explored as soon as the others.

Q I see. You have heard of that, geologists' opinion to that effect, haven't you?

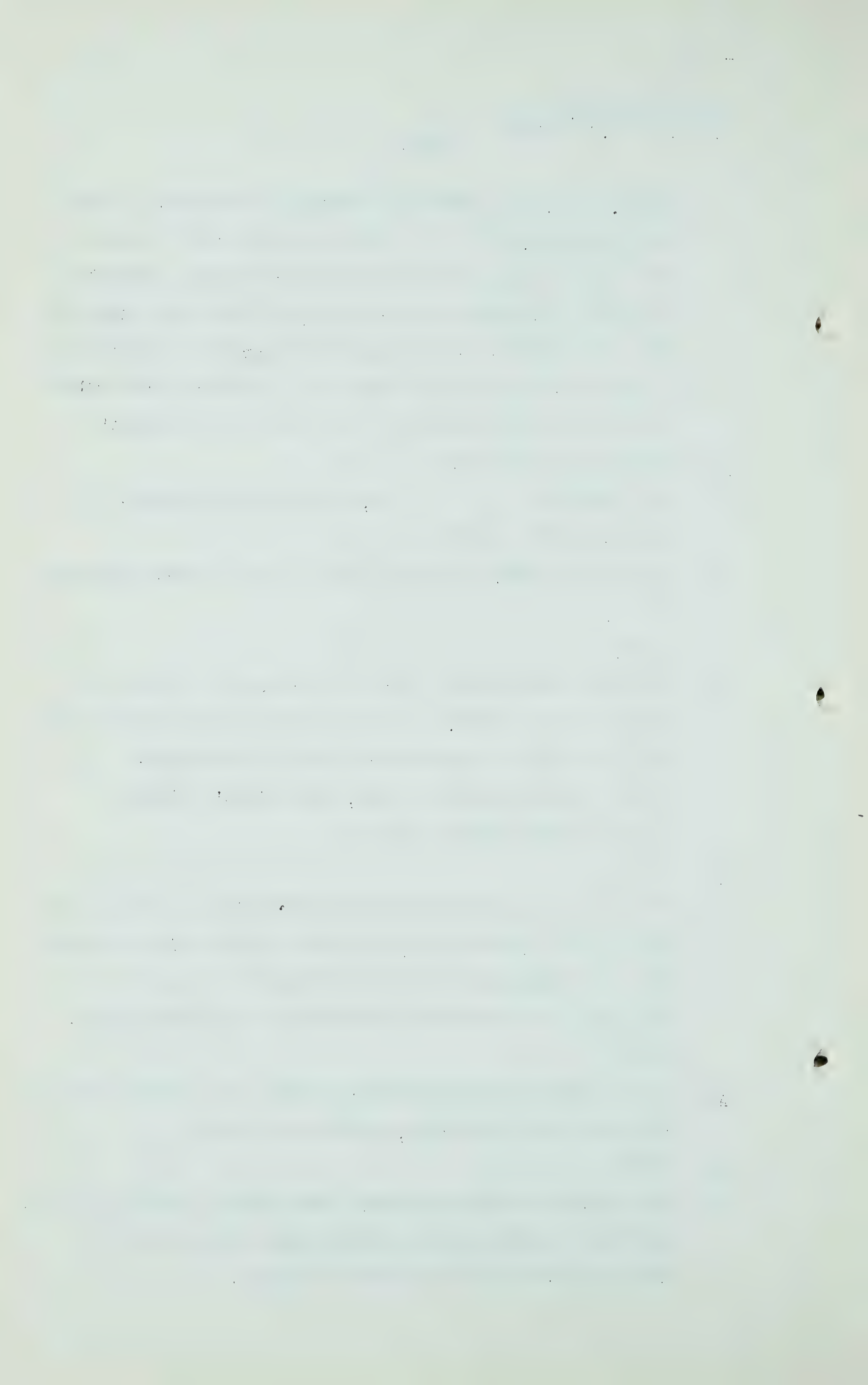
A Yes.

Q And have you analyzed the gas discoveries in recent years with all the limitations, the fact of not having a market, these new discoveries that are being made now, and you do not find them immediately adjacent to the Calgary area, do you?

A It has always been the history of the oil and gas business that there are "hot spots," as they call them.

Q Yes?

A That certain areas are at the time areas of chief interest, and it so happens at the present time that the areas of chief interest are not close to Calgary.



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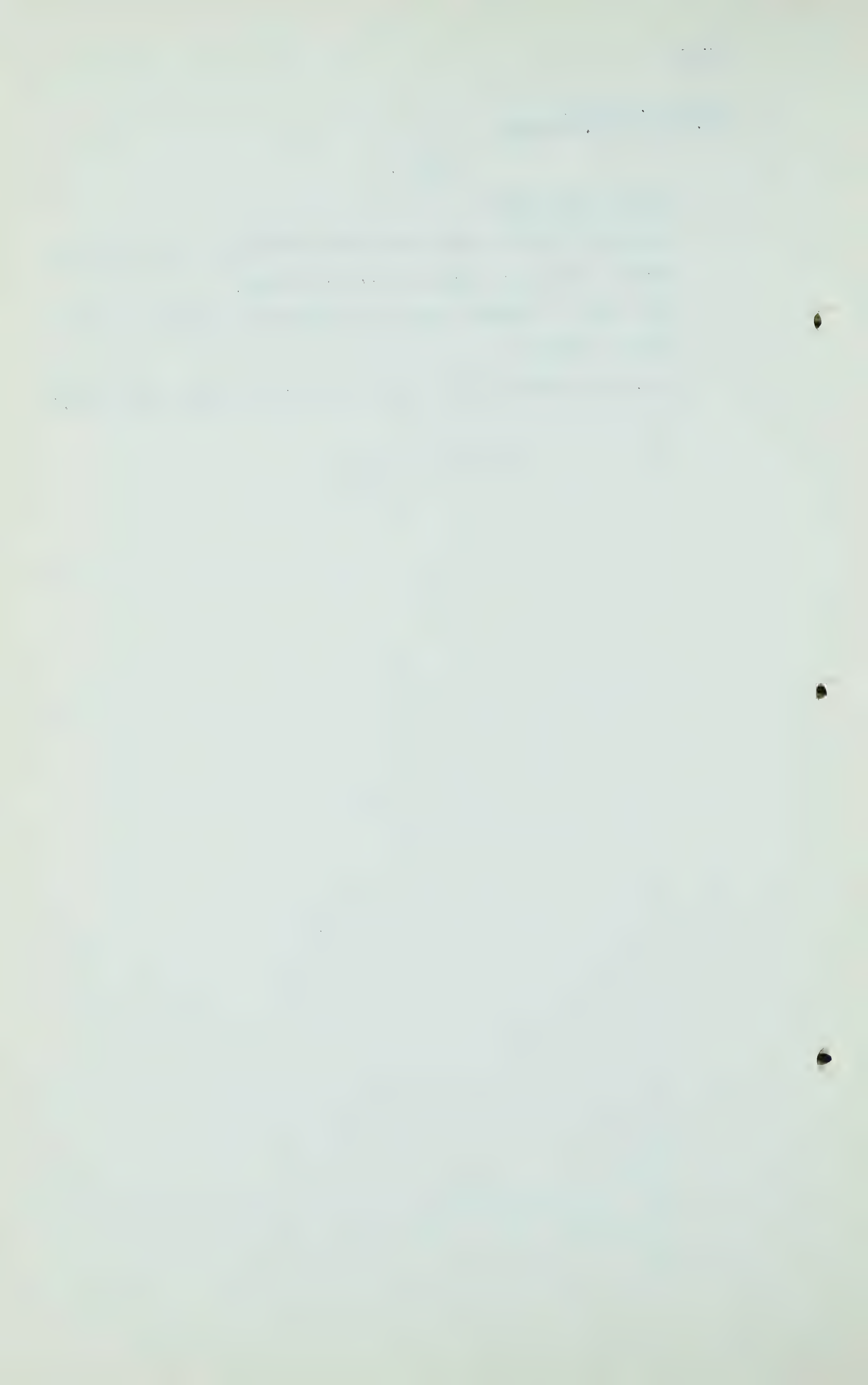
Q Why are they "hot"?

A They have found a few fields and everybody else is going there. They are like a bunch of sheep.

Q They are hot because somebody happened to discover oil and gas there?

A Yes, and everybody gets interested in the same "hot spot."

(Go to page 162)



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Q However, have you noticed that that is so? That is that the discoveries are decidedly away from that area?

A I think we have covered that pretty thoroughly in the very closing portion of the report.

Q Say that again?

A I say we have already covered that in this report.

Q And that is your position?

A I am trying to answer your question. Now I will make a question myself and I will answer it.

Q Yes?

A It is true that at the present moment there is no particular interest in drilling for gas or for oil for that matter in the Central Belt area. Calgary is in that Central Belt area. There is interest in drilling for gas within a reasonable distance of Calgary on both sides. You have Jumping Pound which is only 40 or 50 miles west and then when you get into the Central Belt east, a little outside of that - -

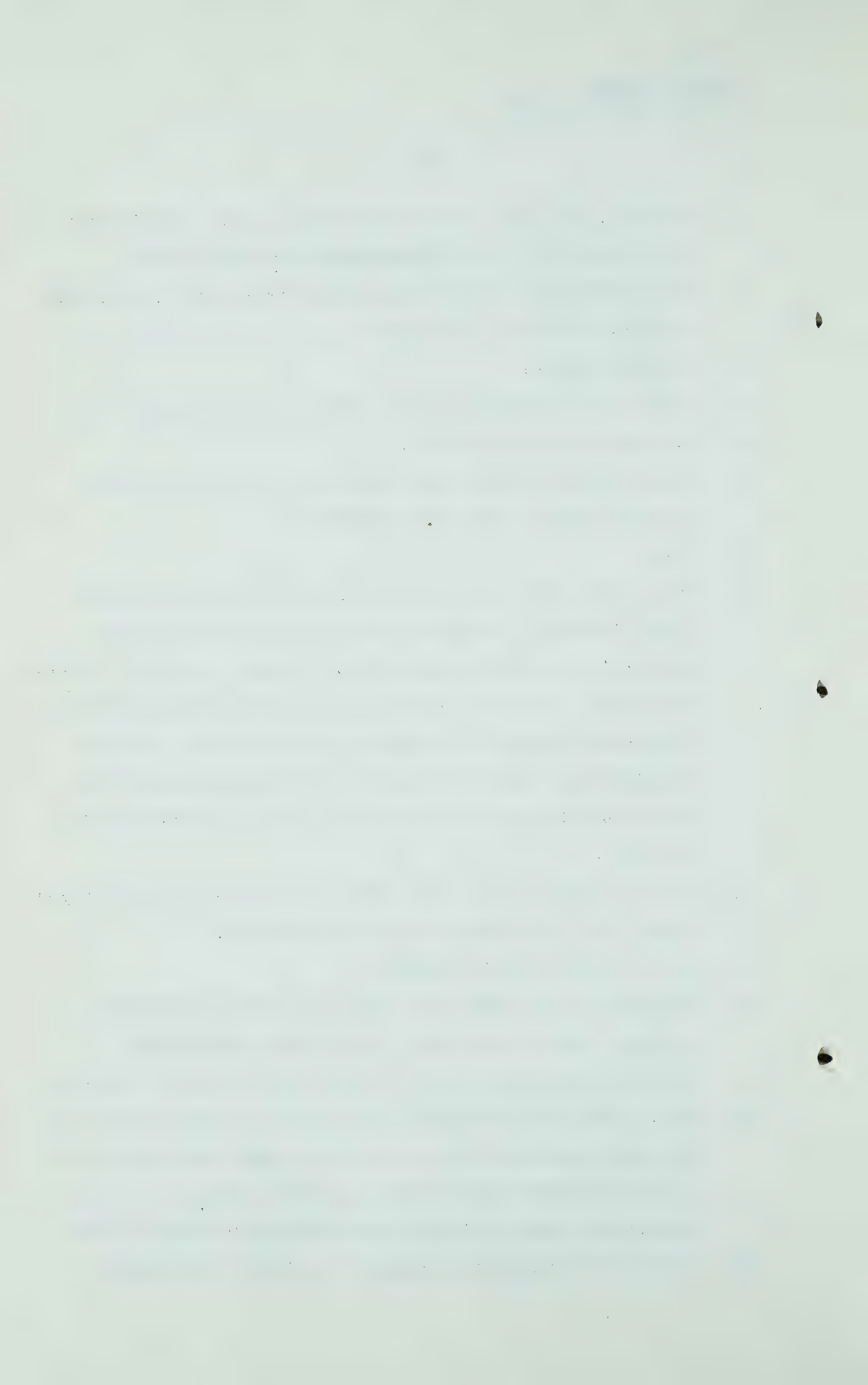
Q Are you familiar with the efforts made in drilling what you might call the Foothills areas in the past?

A Not in detail but in general.

Q Because you see there is a body of opinion, geological opinion, that we are quite low here and unfavourably placed for gas discovery. Do you know of such an opinion?

A Yes, I know of such opinion and I will say this, that from my long experience I do not entirely agree with that. As a practical man I do know it is a fact, because I do not think this area is likely to be tested for years to come.

Q I find that geologists disagree on almost everything?



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A And I find the lawyers disagree too.

MR. C. E. SMITH: I think he must have missed that last remark.

Q MR. FENERTY: It has been explained why you do so. Now you refer to future needs for the Province. Again I ask you to assume for a moment we are in one of those unfavorable areas. We do not get any immediate important gas development available to Calgary in the near future. If Calgary had to rely on areas more remote it would mean increased cost, would it not?

A Only a trifling amount. It depends of course upon how remote those areas are. It does not cost much to transport gas 50 miles.

Q It does not cost much to put in a gas gathering system with low pressure wells and 30 miles of pipe?

A You are putting in a condition there that is entirely new. That is, the low pressure wells.

Q Never mind whether it is a dollar or a million dollars, it is true if you have to go further afield for your gas your costs are increased?

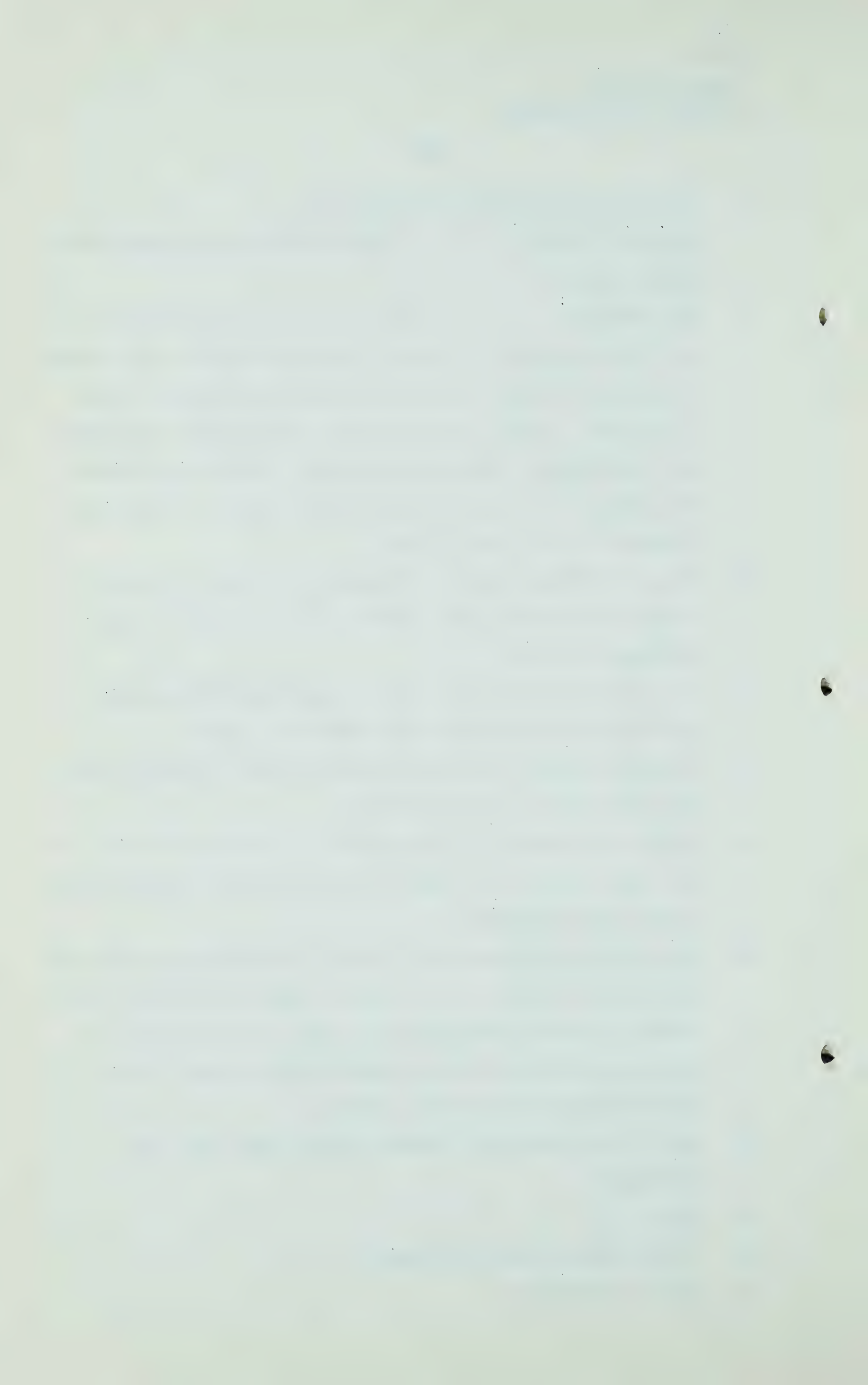
A Yes, that is axiomatic but I will not altogether agree with you on that because it is true you might have to pay extra costs of transportation but you might be getting gas in an area where gas is more cheaply produced and the consumer would be able to buy cheaper.

Q But if you have to go further afield your costs are increased?

A Yes.

Q If all other things are equal?

A That is axiomatic.



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Q And whether they are greater or less depends upon the potentialities of the field?

A Among other things, not all.

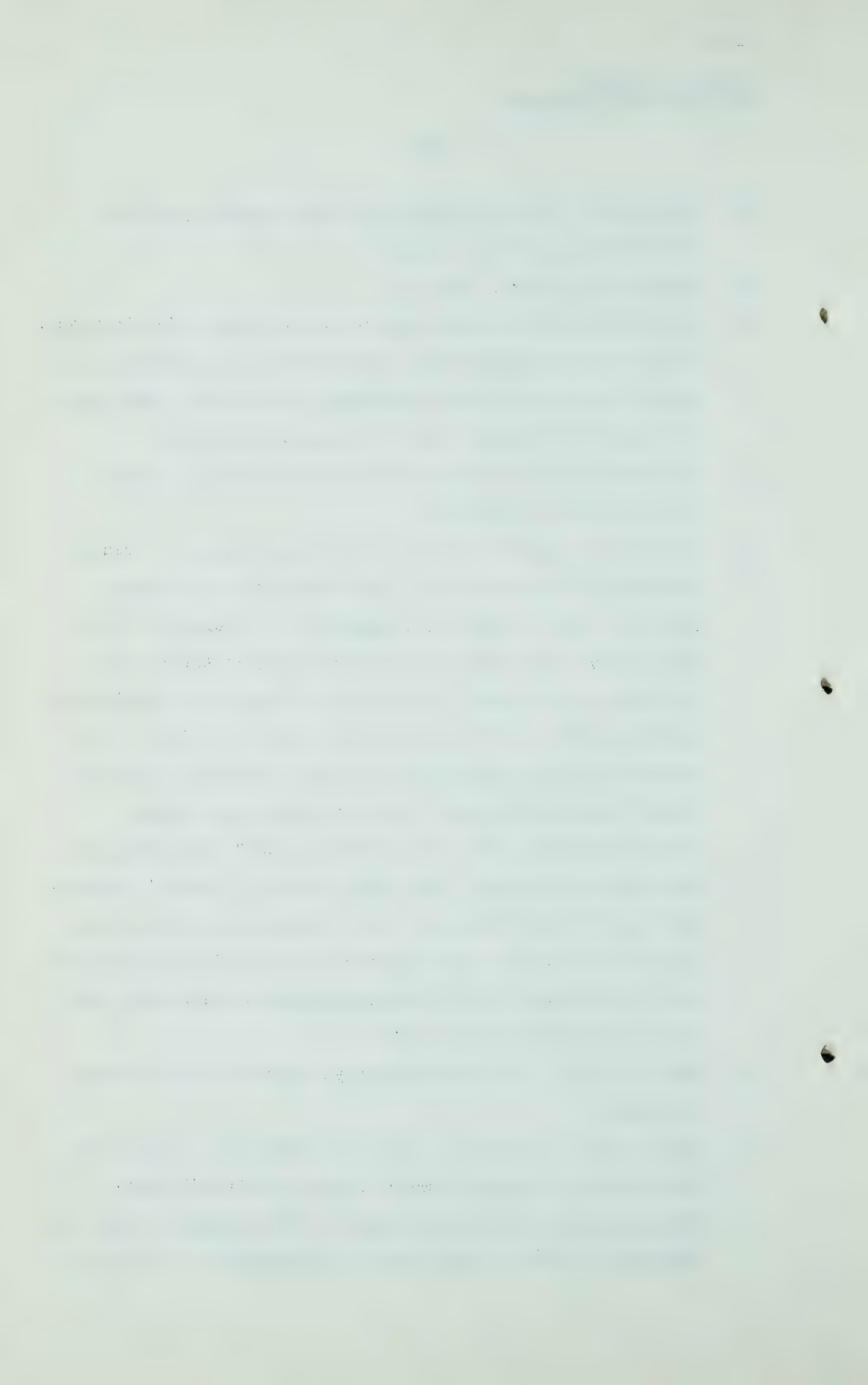
Q And a dozen other things that we do not know. For instance, if you are taking gas from a developed area or whether you have to go in and do the drilling of more wells that would have an effect on the cost of the gas, of course?

A You have to pay for your wells whether they are already drilled or to be drilled.

Q All right. Now let us come down to something I am really particularly interested in, and I hope you can help me. Will you turn to page 12, paragraph 12 on page 12? "The gas reserves now committed to market within Alberta are in excess of 30 years' requirements, based on an estimated demand in 1960 of 78 billion cubic feet. In view of the evidence on the potentialities of the Province, it would appear that the Province can safely rely upon future discoveries for their more distant needs." Now the way I read that is that you have taken a total 30 years' requirements and on that estimated the consumption, and you have taken the total you say committed and you find that the 30 year requirements for the whole Province are less than the total committed, is that it?

A Wait a minute. If I understand you right that is a wrong statement.

Q Well, I may be wrong but I want to find out. I have some figures here on page 30 which indicate 2970 billions. Following page 30, the statement. 2970 billions of gas not available. That is the total in the Province, is it not?



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A Wait a minute. Did you say gas not available?

Q Not available, yes. The second last column.

A Is not that committed gas?

MR. MARTLAND: Committed gas.

Q MR. FENERTY: I am speaking now of gas not available to pipe lines. That is what you say, "Gas not available." That is the words used in this statement. 2970, that is the correct figure?

A Yes, that is right.

Q If you look at the table immediately following page 30 - -

A Yes.

Q - - you see in the second last column "Total Gas Not Available 2970"?

A Right.

Q My understanding, Mr. Lewis, is that that is made up of two things, gas committed and gas that is not economically available?

A I think that is right, yes.

Q All right.

A I might add, or I might explain, Mr. Fenerty, that the details of this were worked up by Mr. Hawthorn and if you get into detail I would prefer you to discuss that with him.

Q You would prefer that I would discuss this with Mr. Hawthorn?

A Yes.

MR. C. E. SMITH: That is not the way I read it. I read there that the 2970 is the committed portion of the 3363.1.

MR. FENERTY: 2970 is the what?

MR. C. E. SMITH: The committed portion of the 3363.1.

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MR. MARTLAND: That is right.

MR. FENERTY: That includes the gas that is not available?

A No, I think that is not right. I think you are both wrong on that.

Q MR. FENERTY: I do not want to labor this if your associate is more familiar with it.

A He is more familiar with these things.

Q I believe this is part of your submission, this general summary. Is not that yours on page 12?

A Yes. It happens Mr. Hawthorn and myself worked it out very carefully together and I sponsored it.

Q But that is yours?

A That is mine.

Q I do want to talk to you about that statement, with your qualifications. You are an eminent geologist in your own right and you would not put your name to this unless you subscribed to it?

A That is right.

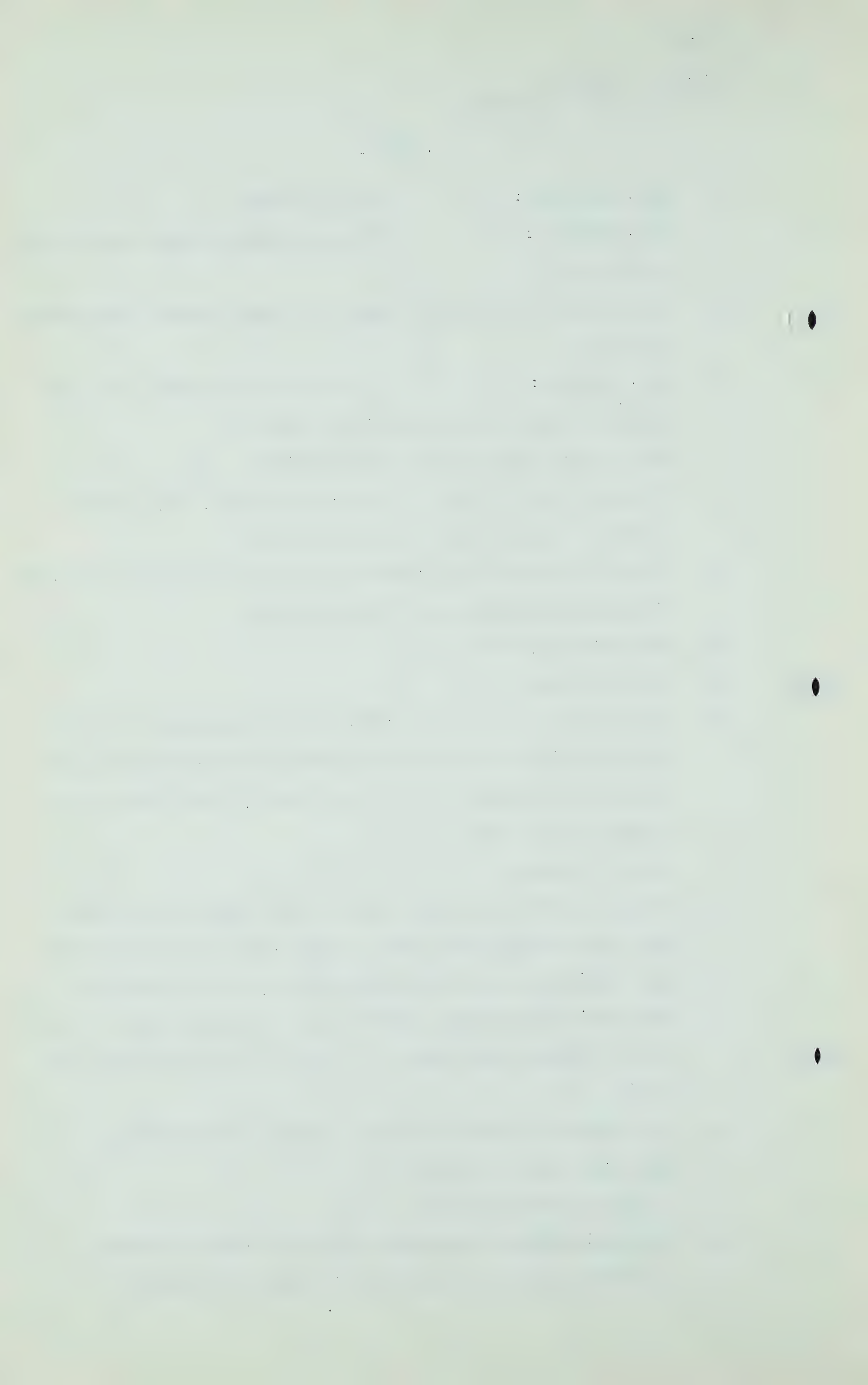
Q I want to find out where you get the amount of reserves you are talking about when you say that the gas reserves now committed to market within Alberta are in excess of 30 years' requirement, based on an estimated demand in 1960 of 78 billion cubic feet. On what do you base those figures?

A I think that refers to this 2 trillion 972 billion.

Q How much did it come to?

A 2 trillion 972 billion.

Q The requirements you worked out as 78 times 30 years, 2,380 billion. I think that arithmetic is right?



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A Yes. We said over 30 years.

Q For 30 years it would be that but you have more than that?

A Yes.

Q You are doing just exactly what I said. You are taking totals?

A In that system, yes.

Q When you seek to show there is something in excess of the requirements the excesses are made up wholly, I think, of gas committed in areas certainly other than the Calgary area, aren't they?

A I do not believe I understand your statement but I will call your attention to this and perhaps that answers what you are after. It is conclusion No. 5 which in part says, "The gas reserves supplying local markets are unevenly distributed among the various cities of the Province." We did not attempt to represent in this statement that there was an even distribution of reserves among the various communities.

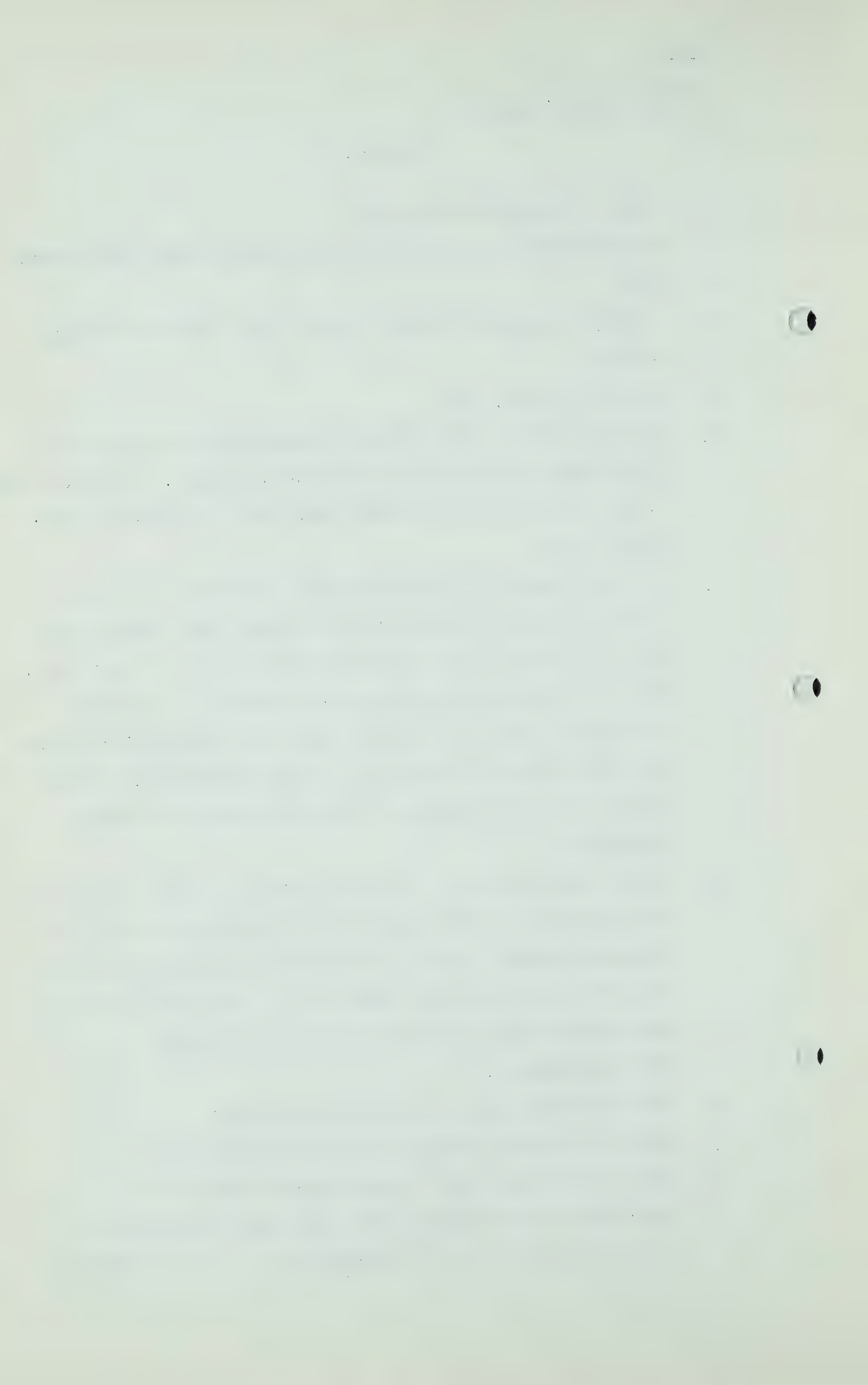
Q Let me ask something. I am not using the exact figures but let us assume the gas committed to the Calgary area, the Canadian Western, over a period of 30 years, say you had a deficiency of 10 billion cubic feet. I ask you to assume some deficiency and I will take say 10 billion.

A That deficiency - -

Q That you might have in the 30 year period?

A We do not believe Calgary has a 30 year supply.

Q But let us assume that in the Calgary area you had a deficiency of 10 billion cubic feet over the 30 years. I am only using that as an illustration. I am not taking it



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as an exact figure.

A Yes.

Q Let us assume for a period of 30 years you have a surplus of 12 billion cubic feet of gas committed to Medicine Hat?

A I think it is a great deal more than that.

Q You have then a surplus of over 2 billion feet according to your system?

A I do not understand that at all.

Q Figure it out and see if you have not?

A Will you read back the question?

Q Now look, tell me, you say we have a surplus of gas committed here. You tell me we have a surplus for 30 years, for the total. That means that you get your surplus gas from areas which are not available for the deficient areas, is that not it?

A I do not understand the question.

Q I do not care whether you do or not as long as I have made my point clear.

A I could, if you wish, volunteer a statement which would clear this matter up.

Q What in the world has that statement which you made got to do with the export of gas from this Province?

A We are simply showing how much reserves the Province has and the estimated needs as based upon this Exhibit 42 of the Canadian Western Natural Gas Company Limited and Northwest Utilities Limited. We are showing the situation, or trying to show the situation in the Province with respect to reserves which they have already committed and which are available to those communities and from it, trying to direct the conclusion or the opinion as to whether there is export-



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able gas. We know the Commission are going to use their own judgment and maybe they will not agree with what we say. But we are trying to lay the foundation for the Commission by making this analysis and also by laying the foundation for setting forth of opinions which we have in this report. I think we set this out very clearly in this report. I doubt whether anybody else would get the opinions and conclusions which you seem to derive from it. At least it does not seem so to me.

Q Would you say that if those words in paragraph 12 of your conclusions and the overall total was that there was less than 30 years requirement instead of more, would that be conclusive against export?

A Our statements Mr. Fenerty, are that the gas reserves now committed to the market within Alberta are in excess of 30 years' requirements. I call your attention to that, that that is not equalized between the various markets.

Q Now, continuing with that, "Based on an estimated demand in 1960 of 78 billion cubic feet." Now that statement is supposed to have some relevancy to the question we are discussing, does it not?

A Well it is supposed to have some relevancy.

Q It is supposed to have some relevancy?

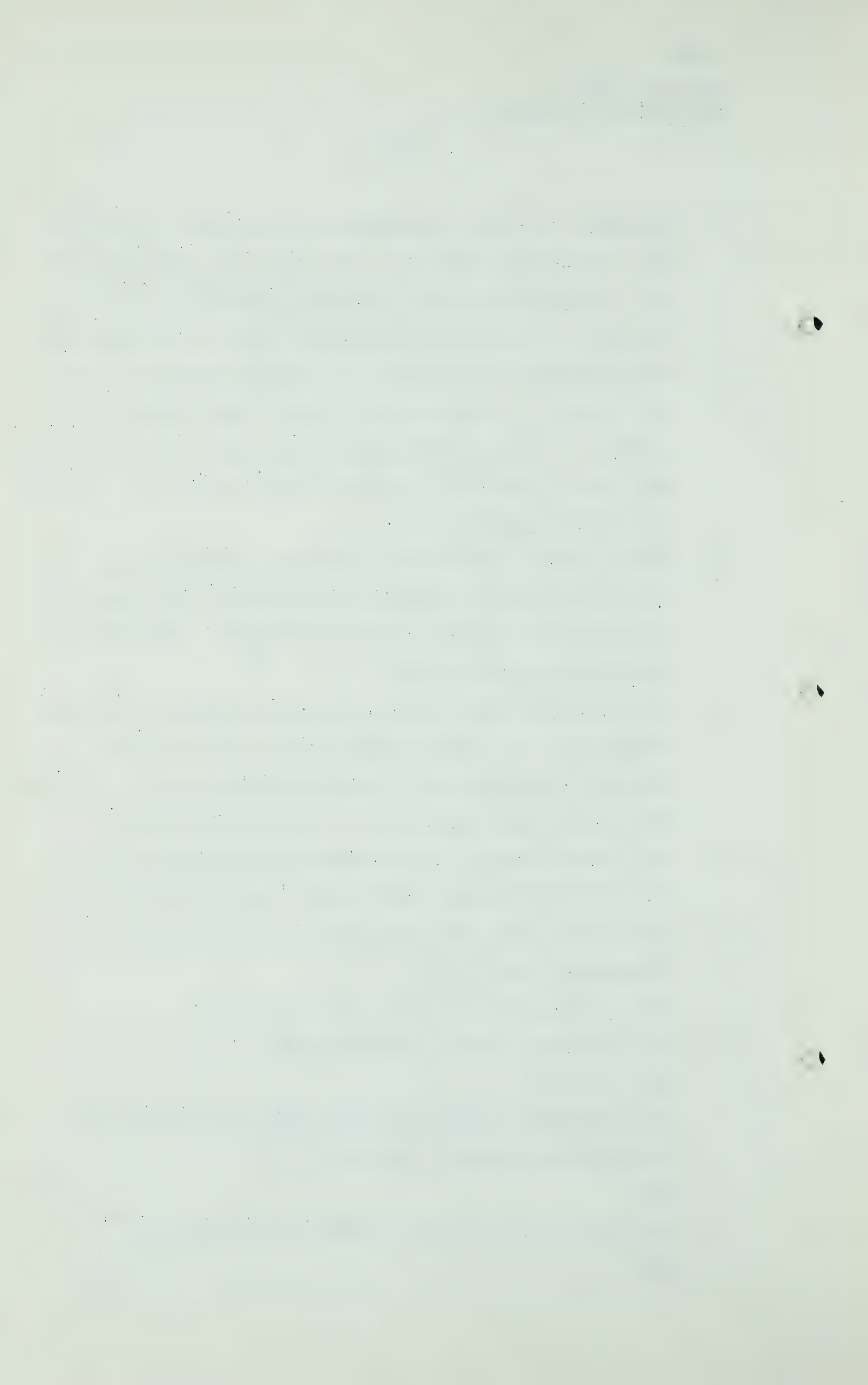
A That is right.

Q It is supposed to have some relevancy to whether or not there should be export, is it not?

A Yes.

Q You would not have put it in there if it had not?

A Yes.



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Q And I will ask you again to explain to me why because there is a surplus in Pouce Coupe or Medicine Hat there should be export from Pincher Creek and some other areas. Just tell me why?

A I can give you plenty of explanations.

Q Well, fine, I would like to hear them.

A First of all - -

Q That is what this means, does it not?

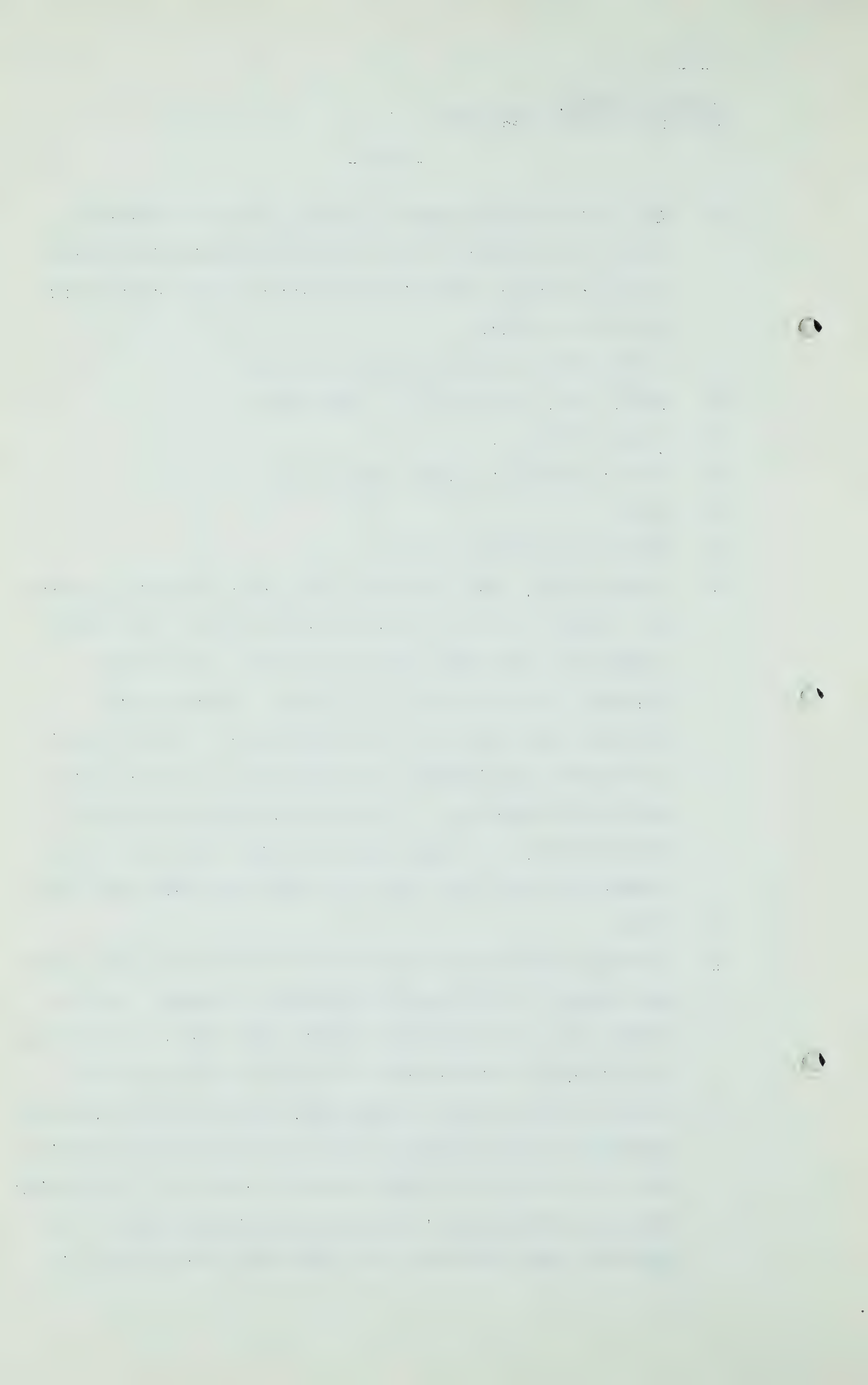
A Yes.

Q One way of getting at it?

A First of all, every community here has a long-time reserve. The Calgary reserve is for 20 years or more. Some other communities have much longer than that. The average happens to be in excess of 30 years. There are two problems as I see it for this Commission. One of them is to consider the Province as a whole and the other is the particular community. I do not know what authority the Province has, but conceivably they might say that certain communities have more than their fair share and some less.

Q Yes?

A If they suggest that there should be an evening up of this unevenness in the reserve estimates, all right. Another thing, I do not think your question has very much relevancy to this whole thing because in my opinion the important thing is that you have enough gas, even for Calgary, already outlined and you can safely rely on the future discoveries for the proving up of these probable reserves. I am basing that upon my 40 years' experience and in particular I am thinking about Texas where my experience started back in



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1900, 50 years ago, and even nearer than that with absolutely no gas reserves at all fields now have sufficient that they are proposing to export gas even into Canada. The Province has a potential - knowing the geological conditions in general, having talked with geologists, enough possibilities that certainly the wants of the Province can be taken care of and where they have 20 years in which to find themselves additional supplies of gas.

Q No matter what they pay for gas after 20 years?

A What has that to do with the problem?

Q All right, I am getting at your viewpoint. Your viewpoint is that no matter what it cost - -

A No, not that at all.

Q Is it your viewpoint - -

A No.

Q - - that the price consumers in Alberta pay has nothing to do with the matter of whether there should be export, as long as there is actual gas?

A No.

Q That is what you just said?

A No. You are twisting things around, Mr. Fenerty.

Q Drawing the conclusions from what is in there? Let us start from what you did say. I said, "No matter what it costs?" and you said, "That has nothing to do with it."

A We were talking about one thing, that was as to the quantities of gas. That was one subject. And then you asked about the price. That was another subject.

Q And you say the price has nothing to do with supply?

A No.



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Q I am not a geologist but I know English.

A As long as you make that statement I will say yes, it has a great deal to do with supply.

Q You see too quickly where you have led yourself. I wish you were a little slower on the uptake.

A I am trying to see where you are trying to lead me to. In the first place we were talking about quantities and after that you talked about price.

Q And you said, "What has that to do with it?"

A We were talking about quantities.

Q I will state to you we can get all the gas we ever need for a million years for \$5.00 a thousand but what has that got to do with it?

A But you inserted another question.

Q Weren't you talking foolishness when you said it had nothing to do with it?

A It had nothing to do with the question you asked.

Q Well, let us get on with something else. But that is what you said, it had nothing to do with it?

A You set forth one predicate and then immediately afterwards you set forth another predicate. Your question was unfair.

Q You do not think it right to have to answer that?

A You put words into my mouth which I do not subscribe to.

Q You are telling us that while it might have nothing to do with the interests you represent that it is of vital interest, the price of gas, to the consumer I represent.

A That is your statement, not mine.

Q I say is it so?

A I do not have any concern with the price of gas in Alberta?



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Q Yes?

A In one way no, because our report was on quantity. If you wish to ask about the price of gas I will talk about it.

Q Have you never represented the poor consumer in anything?

A I was not asked to represent the consumer. I was asked to report on the question of the export of gas.

Q As I understand, you did that, but have you ever had to give consideration to the effect on the consumers in the area where the gas was found?

A I will give consideration to it now if you wish. I do not remember any statement of price in this report. If you wish to talk about price, all right.

Q One thing plain is that you are not interested in price?

A That is putting words in my mouth that is not so.

Q I say are you interested? Well, let it go.

A Yes, I am interested.

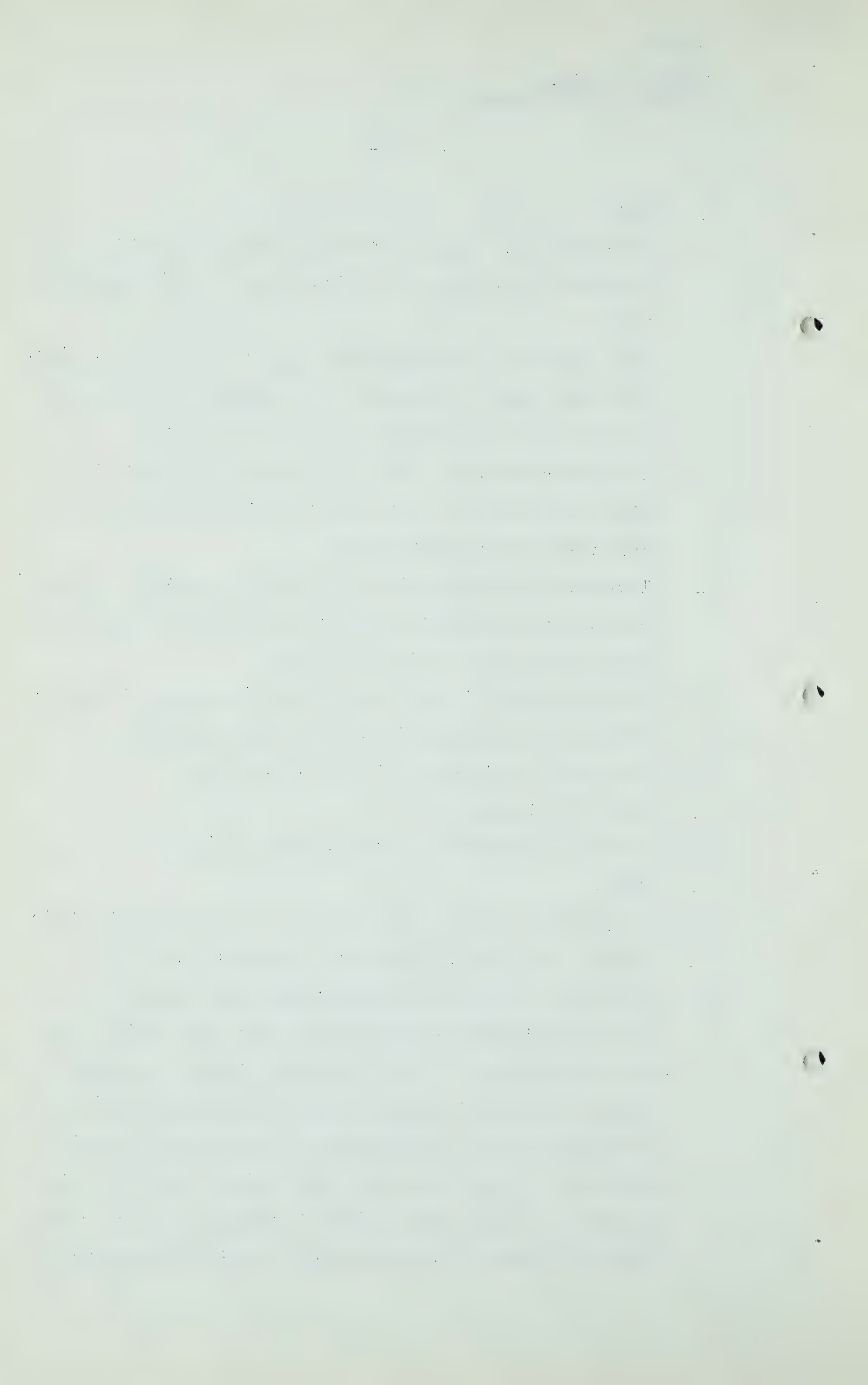
Q I think I know what you are interested in.

A What?

Q I know what you are interested in. It is not difficult.

A You are very good, because I do not think you do.

Q Now I want to take this Calgary area and I think you have got something we can agree on now. In this Calgary area with reference to the gas which you treat as committed. I want to see how it works out over the 30 year period for the Calgary area. I wonder if you can tell me something about it. Would you take these figures down on a piece of paper? I have these figures, Jumping Pound 401, Turner Valley 251 less 24, a net of 227. I will tell you where



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I get the 227. The figures indicate that already in seven months the Canadian Western have used 13, so that is approximately on the same basis of 24 off for the year. 227. Bow Island 17, Foremost 21, and I have the Canadian Western estimate of 31.5 as the consumption of 1960. That would be the equivalent to an average of that over 20 years, if you take it on the increase from the present consumption. Now if you divide that total 666 by 31.5 you have a supply in volume of a little over 21 years in the territories which you say are by contract or otherwise allocated to Calgary. My understanding is that in dealing with export you proceed to treat this as allocated to this area and to treat all other areas unallocated to somewhere else as available for export.

A Presumably available for export.

Q Now I am going to suggest to you further that assuming a consumption, the figures on consumption already justify a much greater rate of consumption, it would follow of course as a matter of arithmetic that the supply from these sources is much less in volume than 20 years for the Canadian Western system?

A You do not mean volume?

Q I mean in volume. I am talking about volume. Don't we solve the problem?

A When you speak of volume what volume do you mean, reserves or volume of consumption?

Q Production.

A Which ones, volume of production.

Q Allocating your reserves, available reserves I mean, I do



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not mean in place. I mean what you have available, a total of 666 in 31.5, an average over the next 20 years?

A Yes.

Q That would give you a 21 year supply in this area?

A Yes.

Q That is volume. That has nothing to do with peak?

A That is not volume, that is years.

Q What?

A That is years, not volume.

Q I am talking about 21 years and about the total volume of gas you have available and deliverable gas for 20 years and that is all you have got?

A In volume - -

Q And you have exhausted your total reserves?

A In 21 years?

Q Yes.

A Well you can assume that. It is not correct but you can assume it.

Q That also includes 17 in Bow Island which is an input field which has got to be used for peak loads. You know about that, don't you?

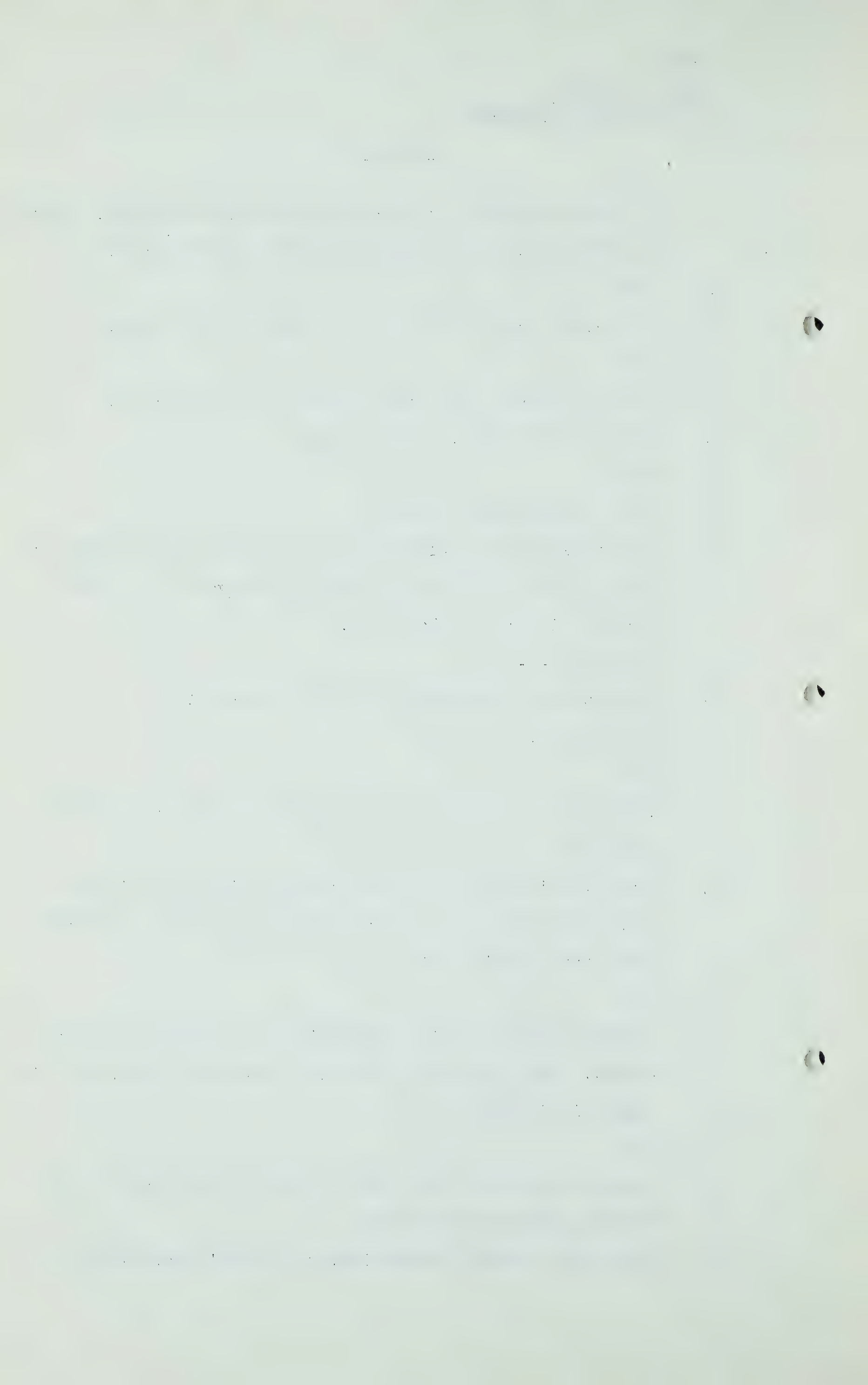
A Yes.

Q And that includes total exhaustion of everything in Bow Island, apart from what you put in for peak loads. That is right, is it not?

A Yes.

Q You have nothing to put back in from these areas if you totally exhaust everything?

A Not if you exhaust everything, you haven't anything to



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put back.

Q I say that you have nothing to put back for peak loads?

A If you are going to assume that they sit on their hands and wait for 20 years till they run out of gas in this area, yes.

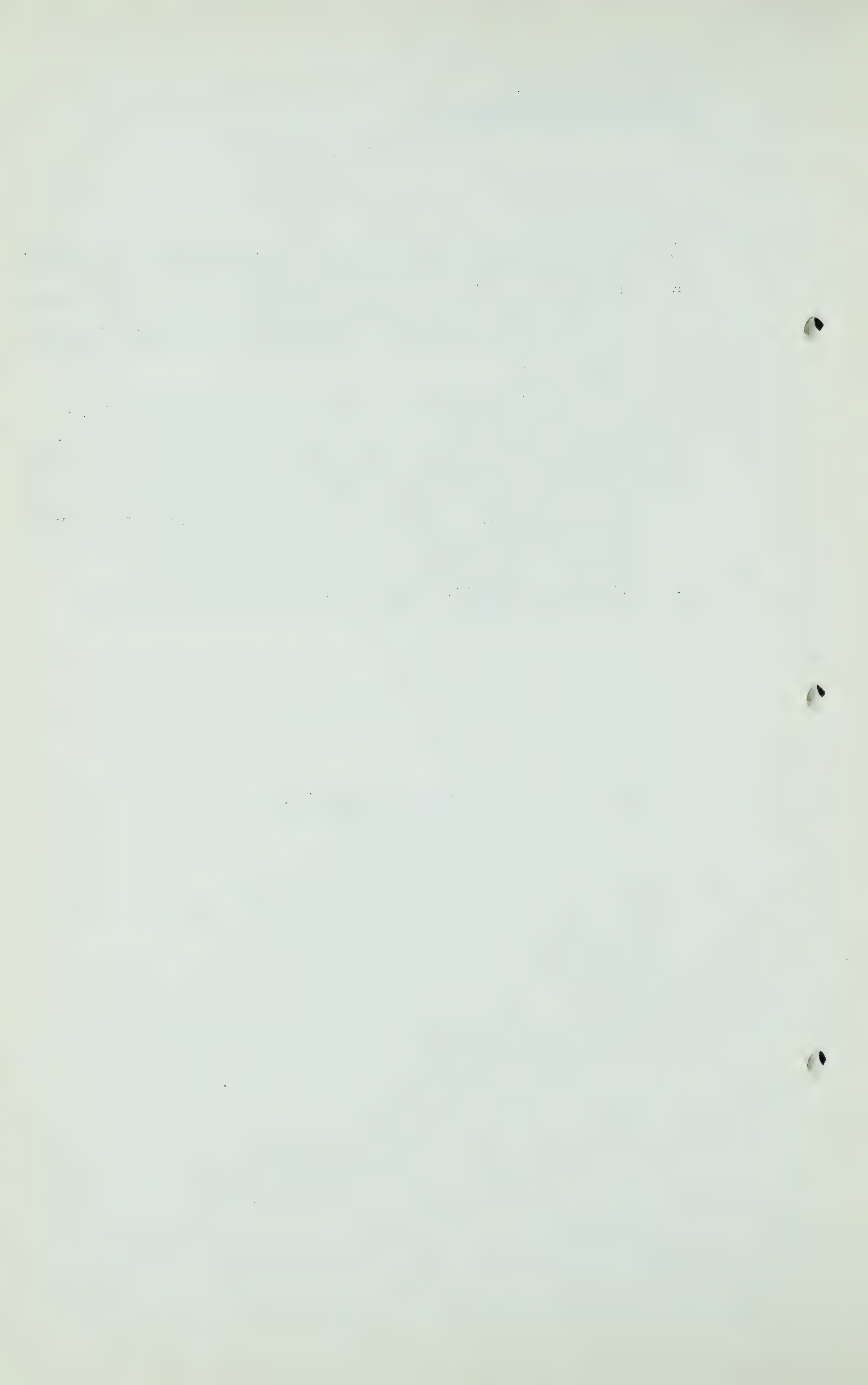
Q I am talking about the fields allocated to Calgary?

A And so am I. We are both talking about the same thing.

Q And as to those fields alone you have 20 years of something possibly considerably less as a peak load, perhaps half of that period? Would that be correct?

A What do you mean, peak load, half of that period?

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Q Did you get your peak load out of that period?

A I don't understand that question.

Q Well, perhaps it is because of my deficiency in geology and engineering. You see, I am just trying to find out if I am talking sense or nonsense.

A If I knew what you were driving at I would try and clear it up but I don't even know what you are driving at.

Q Well now, let us go back. You have a fixed rate of production, haven't you, that you can continue day in and day out in different fields under regulations and under scientific work on oils, each field has a designed rate as determined by competent Boards and so on?

A I don't follow that. As a matter of fact, in these gas fields you have to fluctuate the rate very widely to accommodate it with the market, and some fields have to be produced at a steady rate. It depends on the physical conditions in each field whether you have to produce it at a steady rate or whether you can fluctuate it.

Q Now, likely I am talking nonsense?

A I will try to clear things up if I know what you want.

Q I am endeavouring to put before you figures which to me and my advisors indicate that if Canadian Western has to rely on Jumping Pound, Turner Valley, Bow Island and Foremost and no other development, you know, and no grid system, that they have a volume of 20 years or less supply. Now I am talking about the volume. Perhaps I am not using the right terms. I am talking about taking a billion feet and it works out on those

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figures at 20 years or less.

A Yes, that is true. Calgary only has, according to the figures we are given here, about 21 years' supply in sight, and as a matter of fact, they could not supply the needs of Calgary even for 21 years because the deliverability would decline to the point that they could not meet peak loads.

Q I knew that. I have known that all along. It would be a bold man to say they could supply the peak load for 9 years?

A I am not prepared to answer that but that sounds like a reasonable answer.

Q I am only trying to get somewhere. In any event, what I am getting at is that as far as the supply which you take as allocated to Calgary, it is completely insufficient, including Jumping Pound in that supply, for 30 years?

A It is not sufficient for 30 years because I have stated before, Calgary, if I did not state it I intended to, Calgary is in the poorest position of any of the communities in Alberta as regards supplies. They are under-supplied compared to the others. On the other hand, I think that that situation is remedial without any question and can be remedied before you run short of gas here.

Q And under existing conditions with that poor supply we have, perhaps taking peak load available for 8 or 9 years, or 10 years, whatever it might be?

A That sounds like a reasonable assumption.

Q Some period less than 30?

A Yes.

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Q Not available for 30 years. Where is the logical source to make up the deficiency on present discoveries?

A The logical source? There are various ways it can be done. You can put in a grid system, take it from other sources or there may be discoveries any place around here and likely will be, almost surely will be within 10 years. Now, I can not say when those discoveries will come or even whether they will be satisfactory in 10 years.

Q Have you considered anything about the price of a grid system?

A To some extent.

Q Eh?

A To some extent.

Q Any suggestions as to who should pay for it?

A I have already answered that question about three times.

Q The people who benefit?

A Those who benefit.

Q Who are the people who benefit?

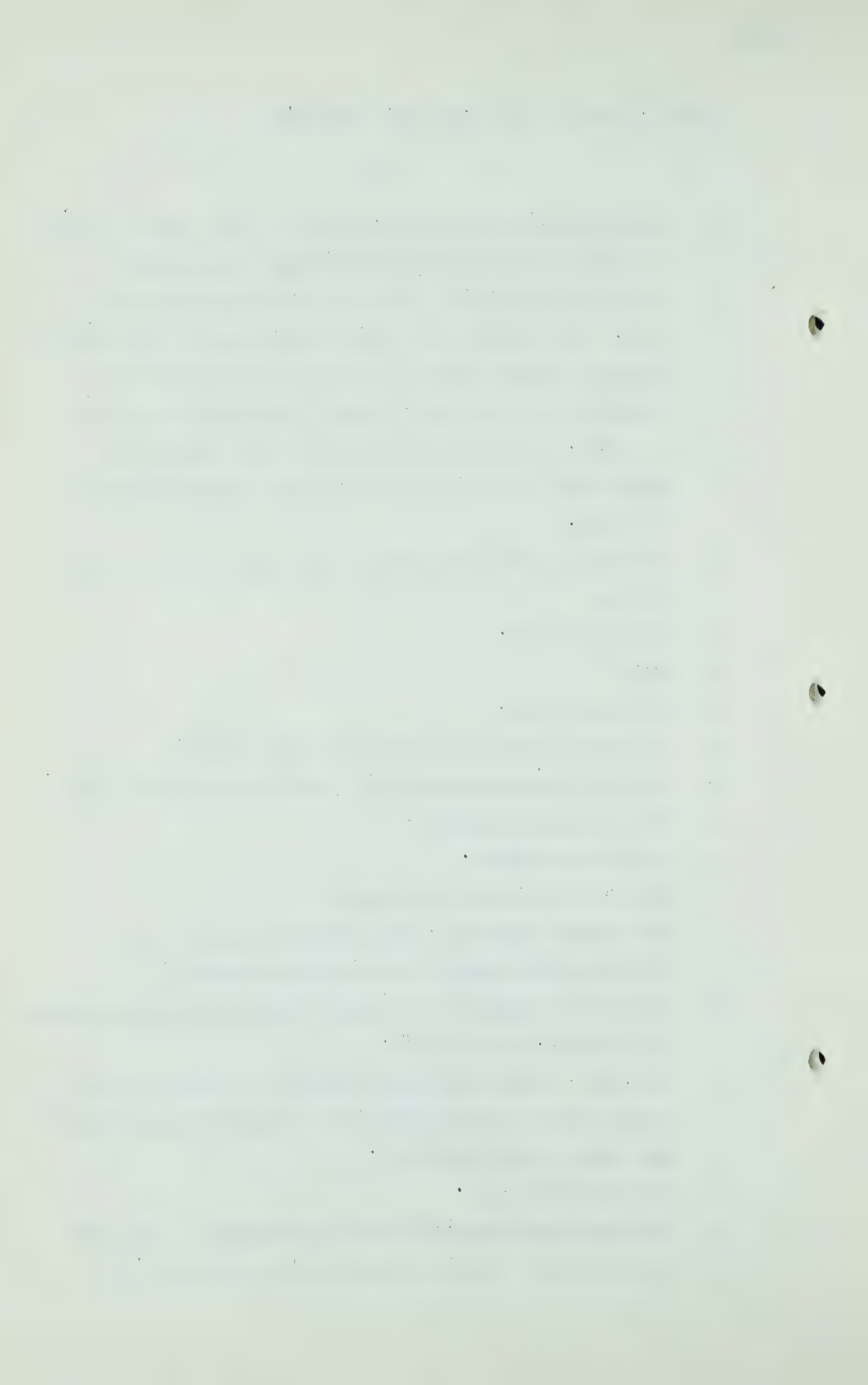
A The export companies, the communities within the Province will benefit too in varying degrees.

Q There are supplies for 30 years within reasonable distance of Calgary, aren't there?

A Oh, yes. We have already testified that there is something over 2 trillion cubic feet of proved and probably gas that is not committed.

Q Not committed, no.

A Scattered various places over the Province. They are exploring for oil and gas east of the Province.



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Q But there is plenty of gas within a reasonable distance of Calgary for more than 30 years that you intend to rely on for export?

A I am not intending to rely on it for export, we are just stating facts.

Q Let us go to Pincher Creek?

A All right.

Q Or perhaps I should talk to my friend about that. Are you familiar with the results of those tables?

A I am familiar. I am not as familiar with Pincher Creek as Mr. Hawthorn.

Q If you are not familiar with them perhaps I prefer to talk to you. You know what I mean, you are supporting them.

A I think you had better talk to Mr. Hawthorn, it is in his part of the testimony.

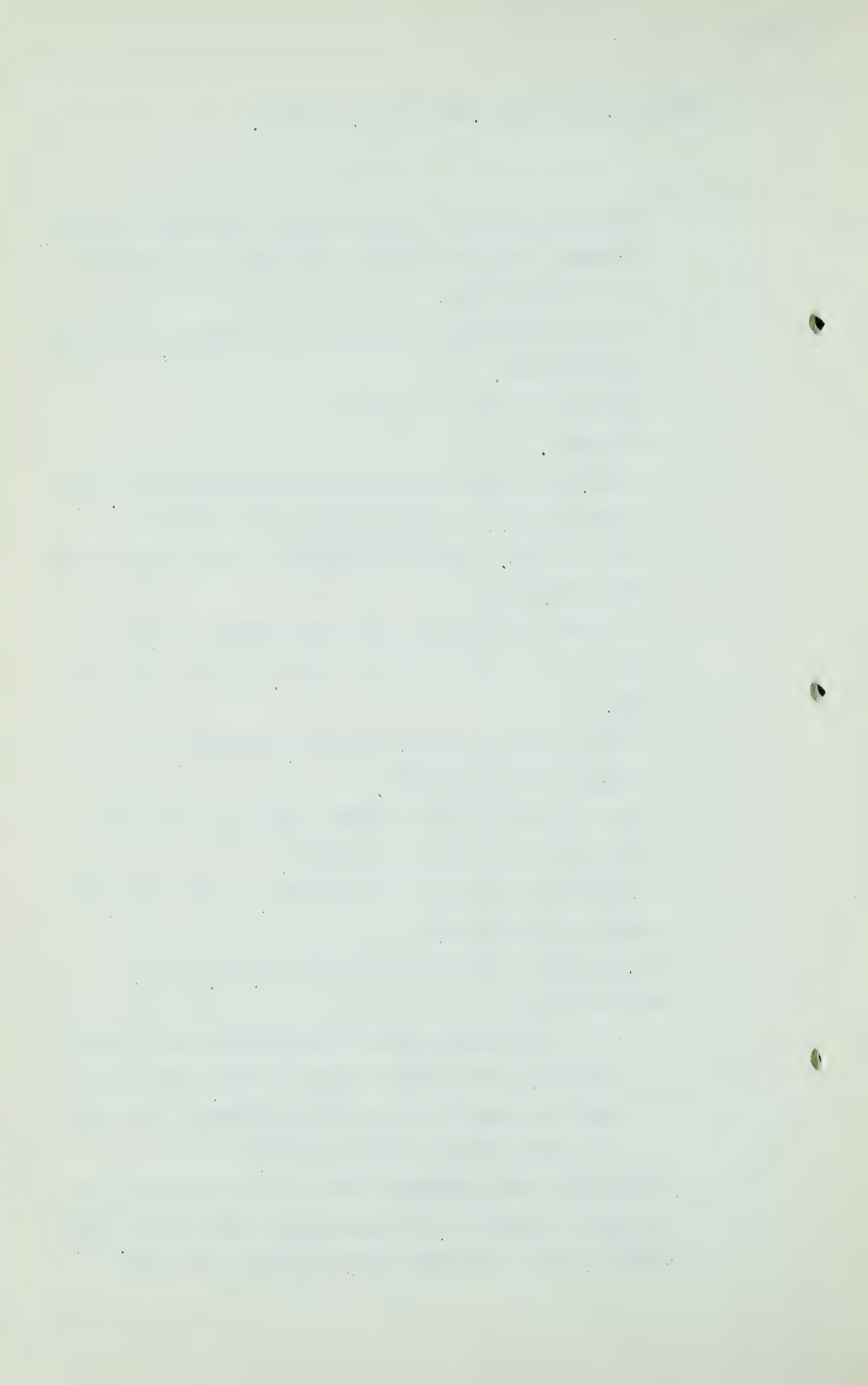
Q I have to thank you for already admitting that those areas allocated are not sufficient.

A I did not say they were insufficient, I said they were unevenly distributed.

Q Now, page 12. That is still in yours, Mr. Lewis?
Paragraph 10:

" An important factor in supplying the future demands, particularly within Alberta, will be the gas necessarily produced from oil wells that must be given first access to markets."

And where is the paragraph where you are referring to several thousand? Oh, I guess that comes in yours, Mr. Hawthorn, that you might expect within a few years



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several thousand feet production. Would you mind showing it to me? Page 18, is it? And in the report at page 18, which I understand you did not prepare;

"In types of reservoirs similar to those so far discovered in the Devonian at Leduc and Redwater, gas-oil ratios of several thousand cubic feet per barrel can be expected within a few years after production starts."

Perhaps you personally have not made any enquiries about the data on that?

A As to Redwater and Leduc?

Q Yes?

A Yes.

Q Have you personally?

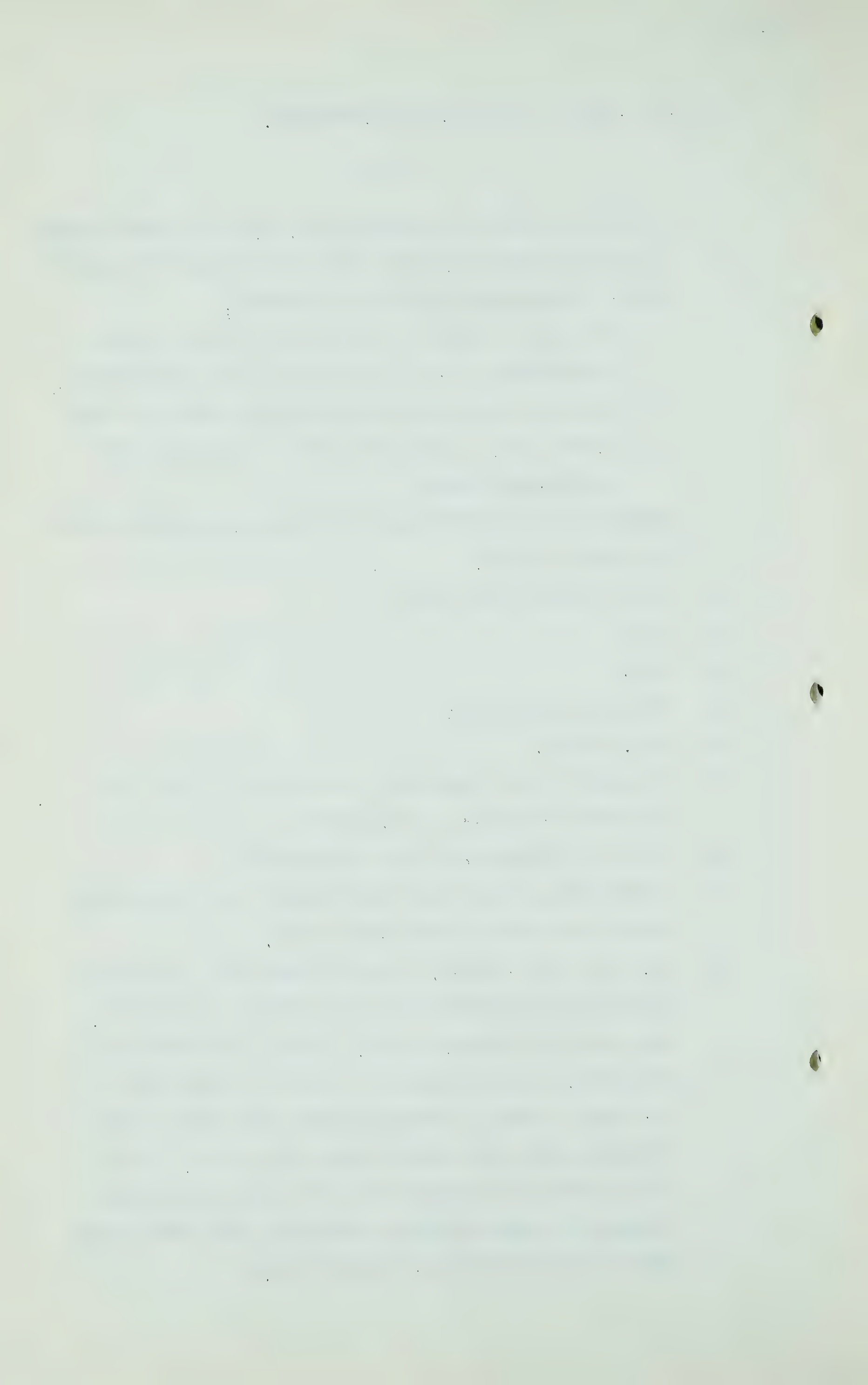
A Yes, I have.

Q I suggest to you that with the exception of the D-2 zone that statement is incorrect?

A We were talking about Leduc or Redwater?

Q I am talking about Leduc and Redwater and I am talking about every field with a water drive.

A No, it is not correct. I am not sure that I answered your question rightly but I will restate it this way, that as far as Leduc, as far, I mean, as Redwater is concerned, there probably will not be a very rapid increase in gas-oil ratios and may not be much of an increase until the latter stage of the field, but as far as Leduc is concerned you can expect an increase in gas-oil ratios within a reasonable time even though there is an active water drive there.



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Q Have you looked at the Conservation Board charts?

A What do you wish me to look at, please?

Q These are the Leduc and Redwater D-2 and D-3.

A I am looking at them. What do you want me to note on them?

MR. C.E. SMITH: . What is the witness looking at? Is it a matter of record, Mr. Fenerty? What is this thing called?

MR. FENERTY: These are two oil magazines producing some charts of the gas-oil ratio on these actual wells.

MR. C.E. SMITH: At least we ought to find the name and the date of them, that is all I want to know at the moment.

Q MR. FENERTY: I will give you these figures. I do not want to take too much time over it but I suggest those charts show - -

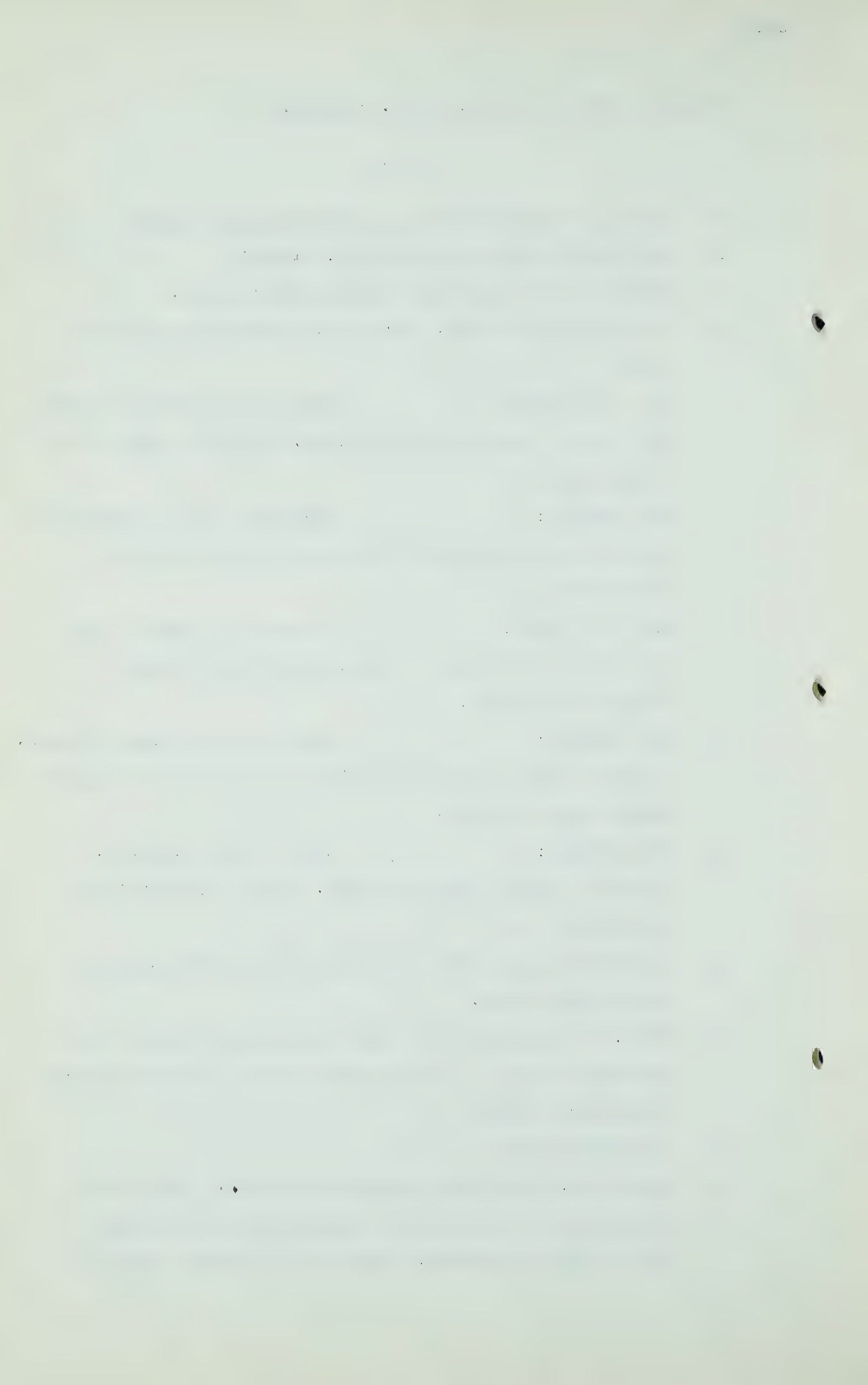
A THE WITNESS: What is your question, please? I have looked at those. What do you want me to comment on?

Q I suggest to you that the experience we have had does not indicate that?

A Well, the experience you have had does not support that statement at all. I have been at those fields sometimes for several years - -

Q I suggest to you - -

A Pardon me, I have not finished answering. There have been cases where the gas-oil ratio for several years will actually decrease, then when it reaches certain



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conditions it will start to increase and increase very rapidly. The data you cite there does not disprove my statement whatsoever.

Q I see, it just has not been solved so far?

A I think I have intimated that, that it does not always start immediately.

Q Is it your understanding, and I am asking for information, that in these Redwater, Stettler, Excelsior and other areas the oil is not saturated with gas, it is unsaturated?

A Some of the fields have unsaturated oil and some not, and some saturated.

Q Is it a fact, do you know, that Redwater, Stettler and Excelsior, and as far as present knowledge goes, Camrose, Big Valley, Stony Plains, are all areas where the oil is unsaturated?

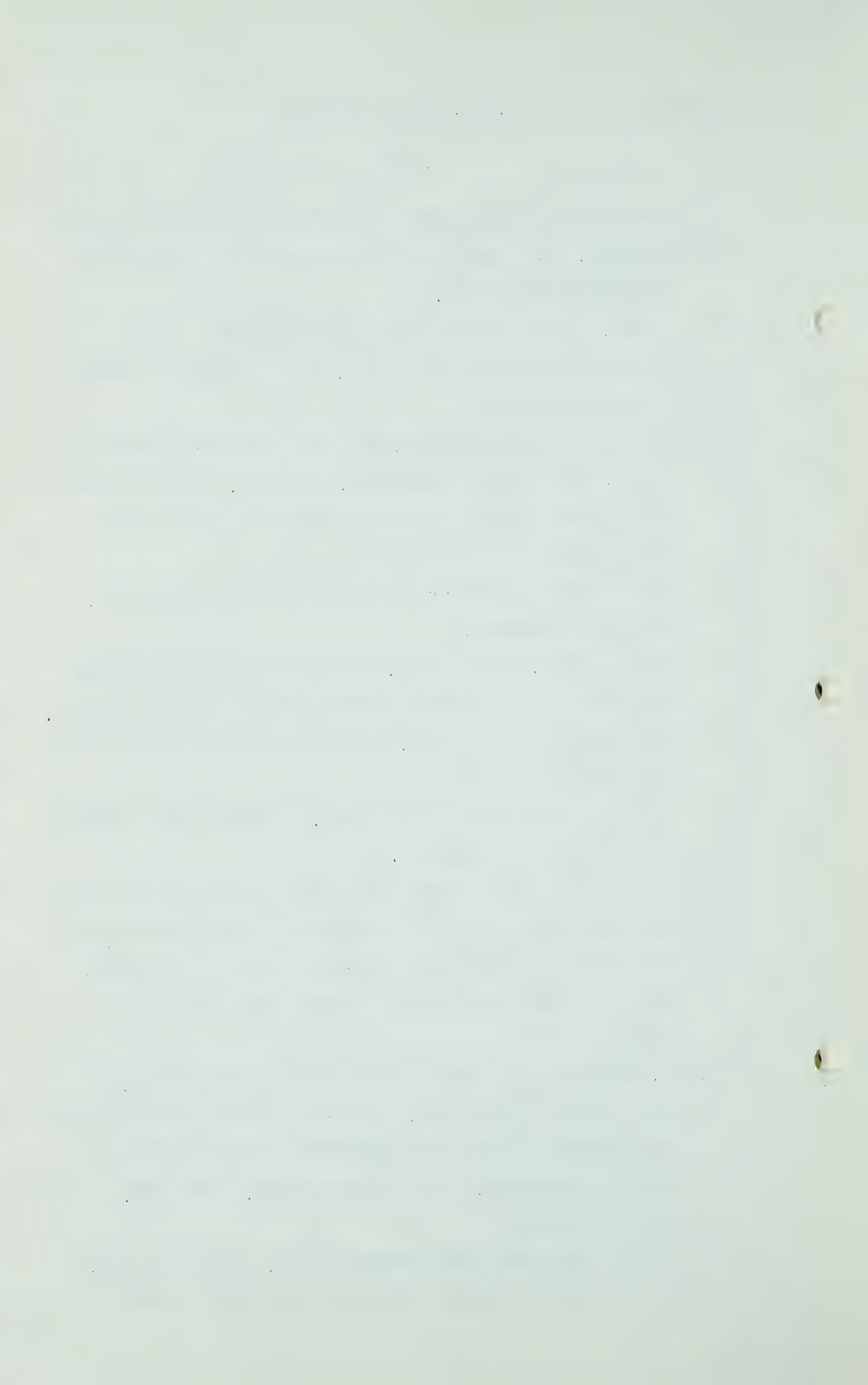
A I do not know about these others. The only one I happen to know about is Redwater.

Q Is it correct to say with reference to those areas which are unsaturated that the proportion of gas recovered at any time with reference to barrels of oil is substantially less than the general figures employed in the United States?

A Well, what you are going to have here in the Province, as you have any other place, you are going to have all kinds of different fields and conditions. Those I took are general statements. Some will be under, some over.

Q But the average?

A I don't know what the average will be. You have Leduc to be averaged against them and future discoveries to



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be averaged against it.

Q You can not help me on that?

A All I make is a general statement that you are going to have more of this casing-head gas as time goes on, and in my opinion it is going to be a very serious problem of how to handle that gas without waste.

Q Whether it is saturated or unsaturated?

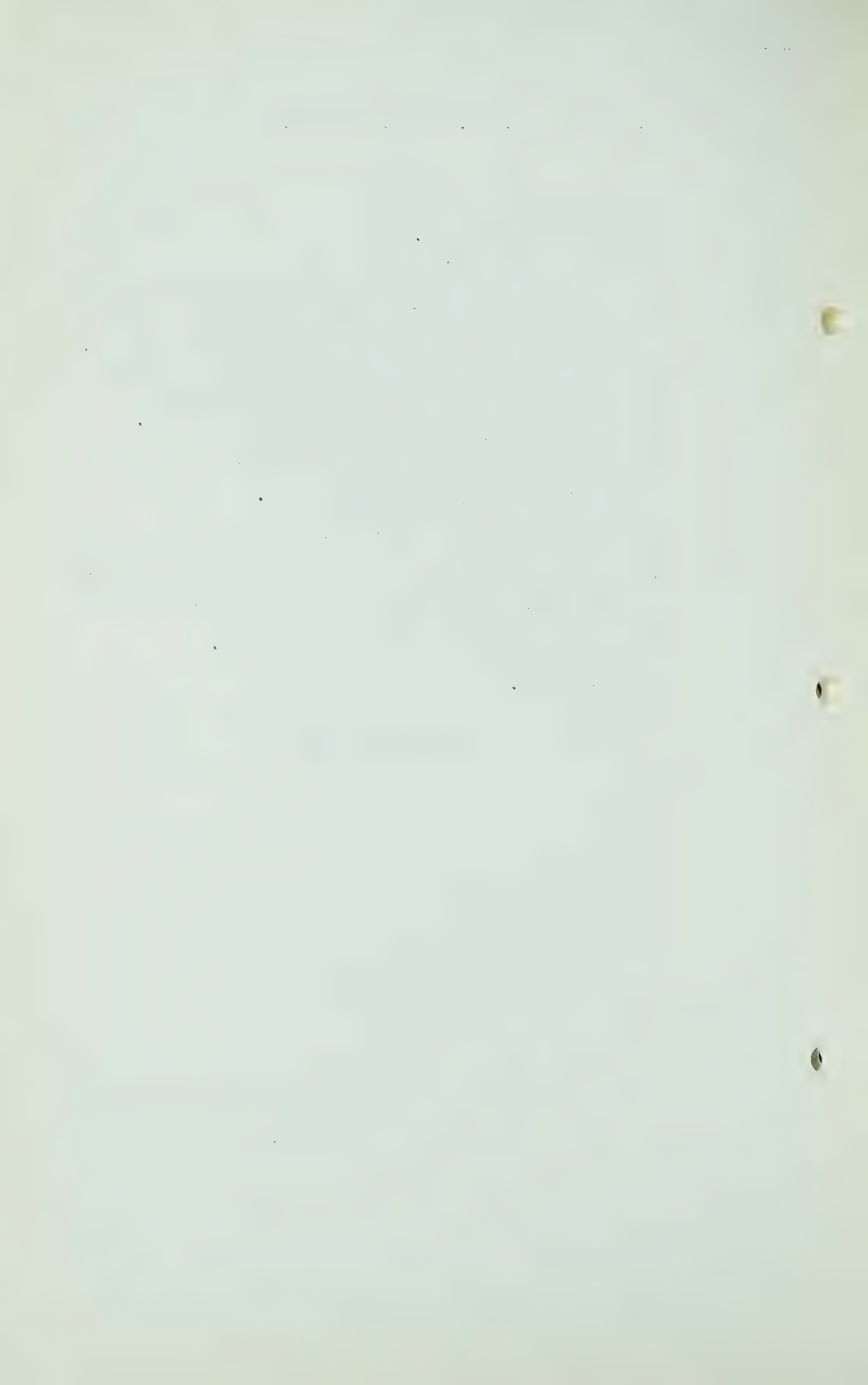
A It doesn't make any difference to it.

Q It doesn't make any difference?

A All it does is this, if you have a field with low gas-oil ratio that particular field will not have as much gas as a field with a high gas-oil ratio.

Q I am learning.

(Go to page 185)



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Q Righto, I am learning. All right, now, I want to talk to you a little bit about Pincher Creek. I want to turn to the table at the end of page 36.

A That is under Mr. Hawthorn's.

Q If you feel you cannot discuss it, I will leave it?

A There may be questions I can answer. I will tell you if I can or not.

Q I am still paying you the compliment of being interested in your views?

A I beg your pardon?

Q I am still paying you the compliment of being interested in your views?

A Very well.

Q You have here a table, and I want to direct you to Column 9, the Daily Gas Production for each well at the end of 20 years, 3.6, that is MMCF, that is billions, no, it is millions?

A I think you are getting into details which I think it would be better for Mr. Hawthorn to answer.

Q I am not questioning the result at all, I want you to assume that is correct, 3.6?

A Yes.

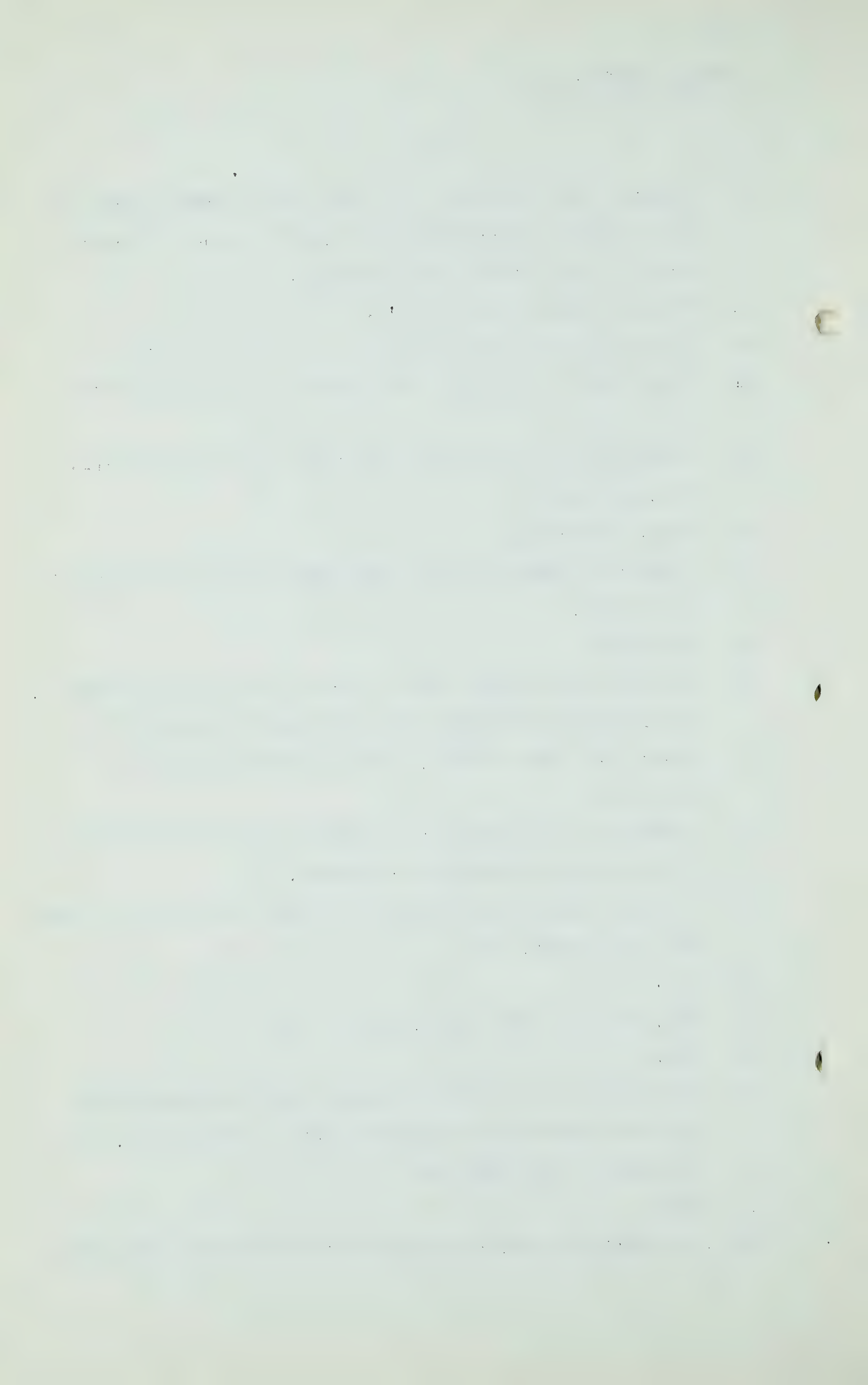
Q Now, those are deep wells, aren't they?

A Yes.

Q And I think I am correct in saying that Mr. Hawthorn has taken the production of 20% for various things, fuel, and the rest of the deductions - -

A Yes.

Q - - certain of them go as high as 30, but he has taken 20%,



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I understand, and if you take 20% off that you have got 2. - what does that come to? I had it worked out somewhere, somewhere over 2, 2.6 isn't it?

A Yes, it would be more than that, about 2.8 something.

Q 2.8?

A Yes.

Q And if it should be say as high as 30%, it would have a substantial effect on that?

A Yes.

Q That is going to be pretty expensive gas from wells?

A Yes, it is.

Q What is that?

A Yes, it is going to be rather expensive gas.

Q I am sorry, my hearing is not as good as it could be.

A I say yes, it is going to be rather expensive gas.

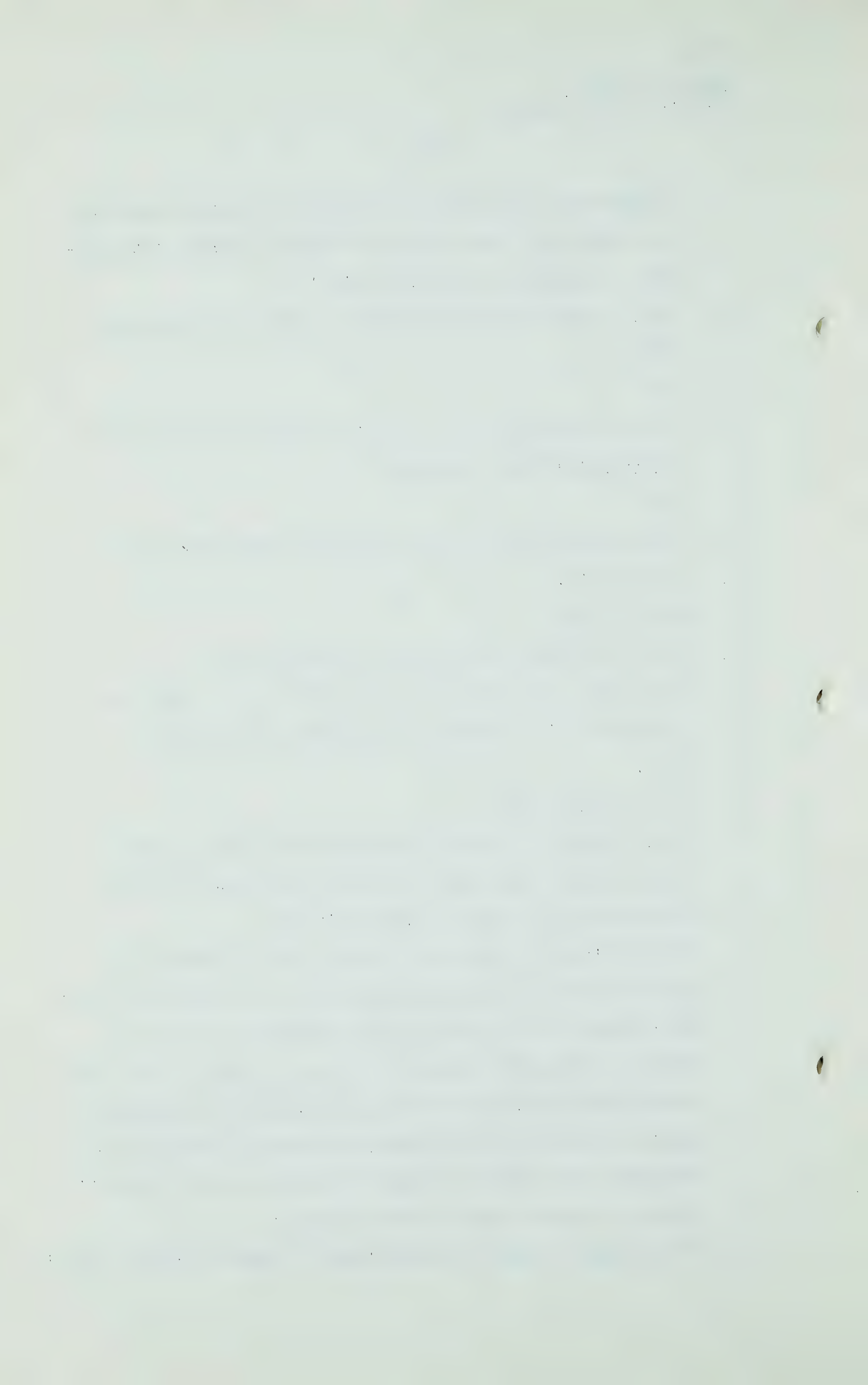
Q Yes?

A In the later stages.

Q And in order to determine whether those wells could be operated at a profit you have got to know what they are going to get for the gas, haven't you?

A I haven't got to know - you have to got to know if you want to carry it down to exhaustion, but these wells were not anywhere near exhaustion at 20 years, and you can assume a reasonably low price of gas so that it will pay to operate these wells. I mean to say, you have to assume a price of gas that it will pay to operate. You want to remember that there is income not only from the gas but from the liquids and from the sulphur.

Q I am coming to that. You have got to know one thing, what



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you are going to get for the gas, isn't that right?

A Yes, let us assume a figure.

Q Let me put it this way. You have got to know (a) what you would get for gas and (b) what you can recover, the value of what you can recover from the other products?

A Yes.

Q Yes, and in order to determine what you are going to get from the other products one of the first things, and one of the things you use for that is bottom hole tests?

A Pardon?

Q Just what you have got on the bottom hole tests?

A No, I do not think so.

Q Have you ever heard of that?

A Indeed, yes, but I do not think you know very much about it.

Q I wonder.

A You have got to have bottom hole samples.

Q Samples, yes, I am sorry. That is the word.

A They have already been made.

Q That is, you have to get your bottom hole samples and you then reduce that?

A And from that you get an analysis of the gas.

Q And have you any of those samples to justify production for 20 years at that rate?

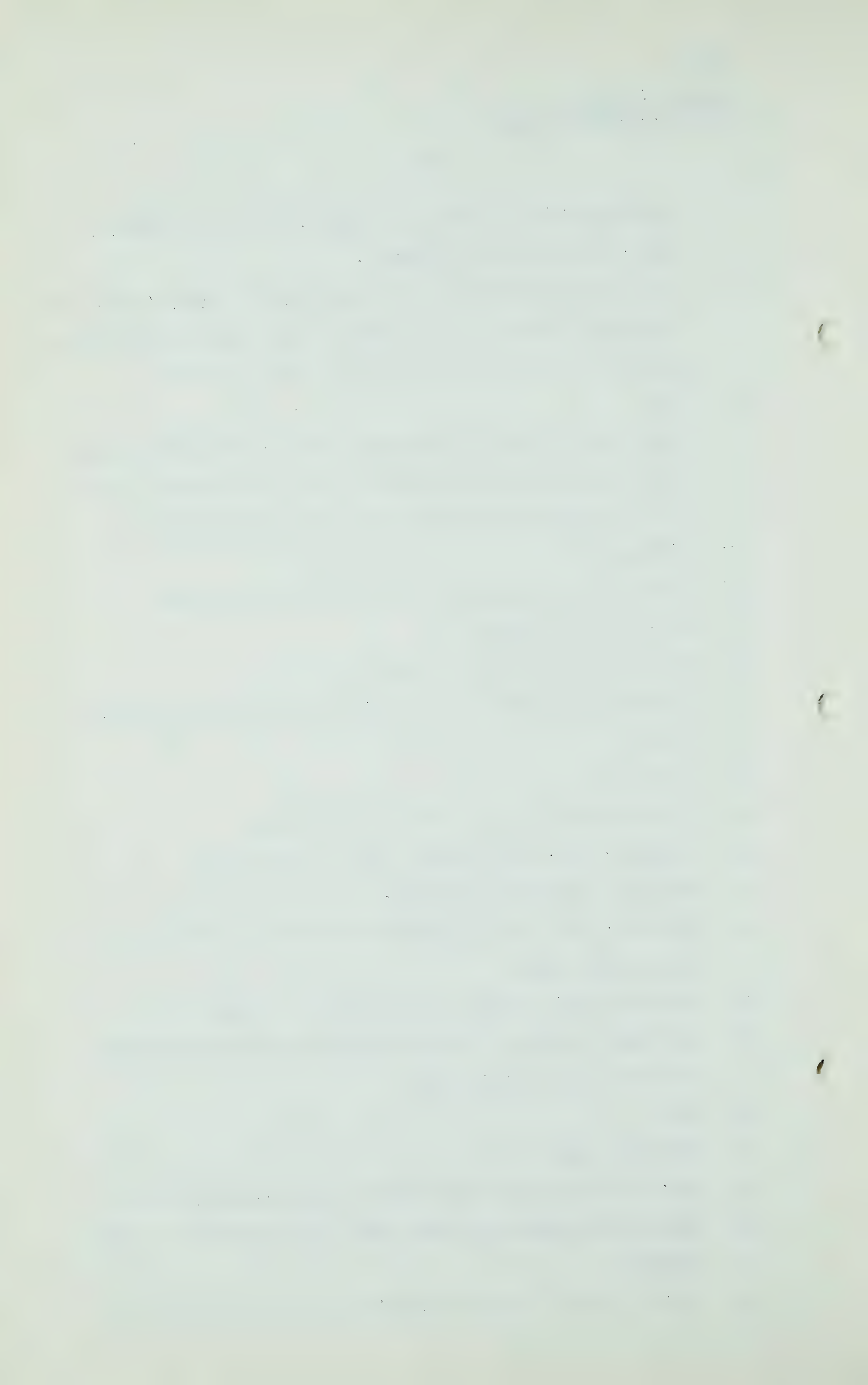
A Yes.

Q You have them?

A Yes. But you had better ask Mr. Hawthorn about it.

Q But at the moment you have that data available, is that right?

A Yes. The only thing we haven't is the prices for the



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sulphur and the prices for the liquids and the prices for 20 years hence, but I can assume figures which are reasonable and derive a reasonable answer.

Q I notice now - 13 wells, yes. Now, I notice that at the end of 20 years you say this will be pretty expensive gas and you have made the necessary calculations as to whether it will repay the cost of drilling that number of wells?

A Yes.

Q All of them?

A Yes.

Q And you were able to carry it down to 20 years and still have an economic proposition?

A Yes.

Q For the owners?

A You will realize that in estimating 20 years ahead and in particular in this case where the reserves are not fully proved we have had to make various assumptions. If our assumptions are right the answers are right.

Q Including the assumption that the owners will drill 13 wells?

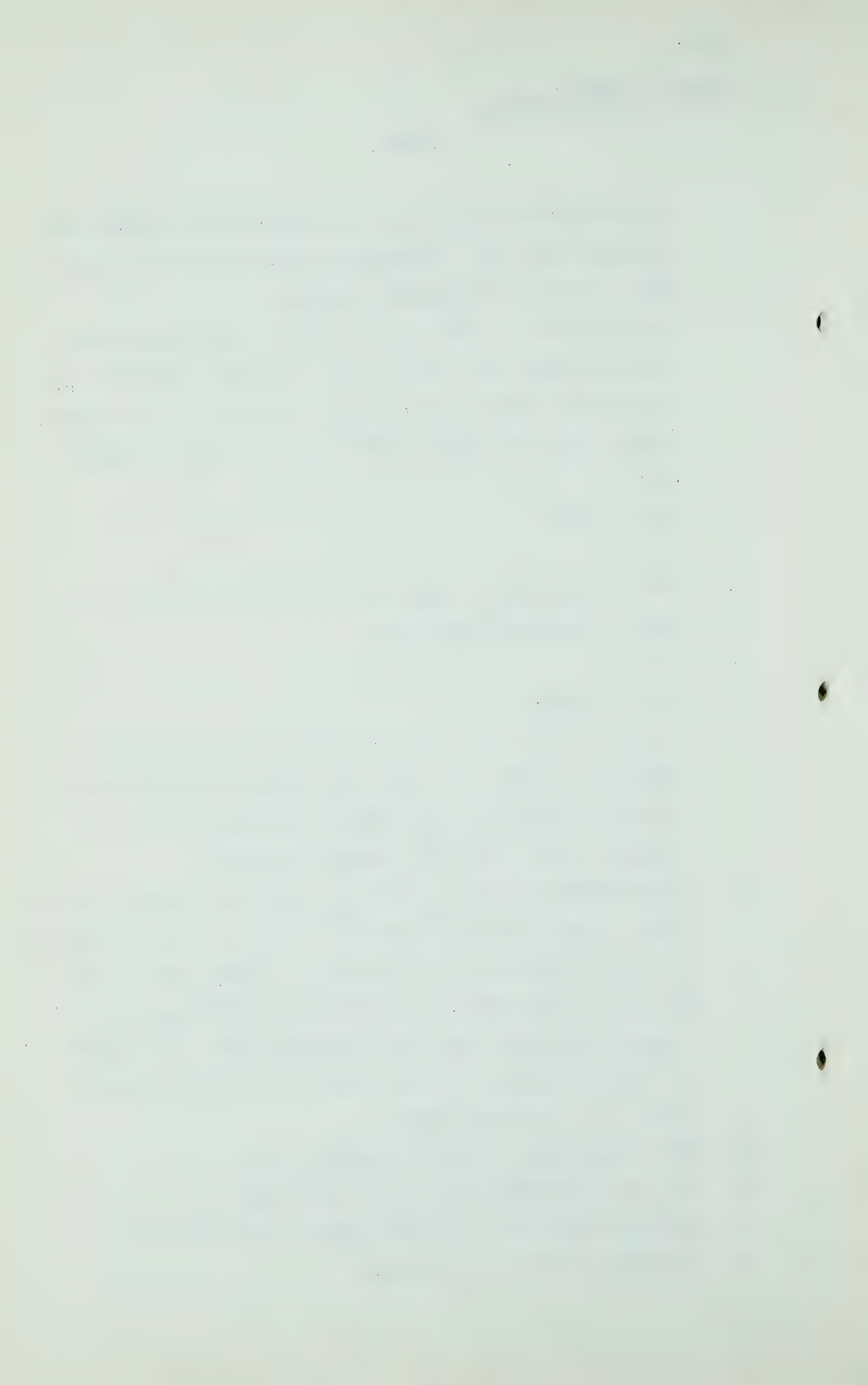
A Well, we have assumed it would be to their economic advantage to drill 25 wells if the reserves are there, and if they get a reasonable price. I might state this that, I do not remember just what figure Mr. Hawthorn used, but I think he used the figure of about 8 cents at the end of the 20 years. He can answer that.

Q Yes, I had better talk to him about that.

A Yes, you had better talk to him about that.

Q Perhaps I will ask him about some of these figures?

A At least he will be forewarned.



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Q I notice at the end of 20 years that you have raw gas remaining in place of 672,782 and originally you had 1,690,000. That is about 40%, Mr. Lewis?

A Yes.

Q And you have got it carried down with regard to the expense of gas?

A Well, I think you have twisted things up there. I said definitely it will become very expensive gas. Just how expensive it will be at this stage I haven't worked out, but it will be more expensive than the first year. Your cost of gas, producing gas, becomes more and more each year as the gas goes down.

Q And you say that you are satisfied that your firm has available, so that we can look at them, the figures indicating the costs and the returns and the justification by the owner for drilling that number of wells?

A We have our working papers here, which are open to inspection.

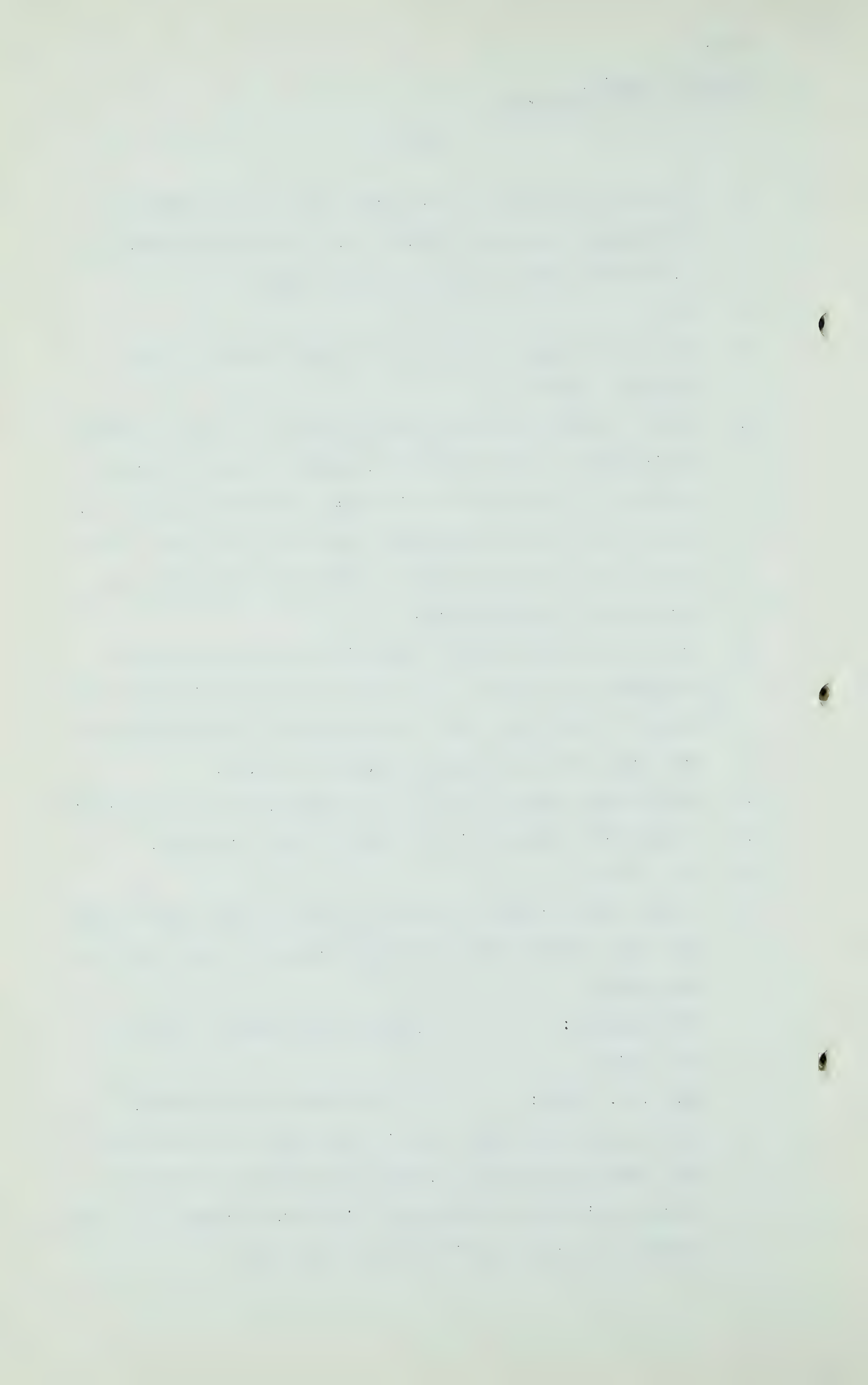
Q I guess Mr. Hawthorn is the man for me to talk to?

A Yes, he is.

Q I see. And I think he is the man that I can talk to about the rest of these few remaining things, so that thank you very much.

THE CHAIRMAN: Anybody else wish to examine Mr. Lewis?

MR. S. B. SMITH: Mr. Chairman and Gentlemen: I was not here yesterday, and if Mr. Lewis is going to be here tomorrow morning I wonder if I could postpone my cross-examination of him until tomorrow morning? I do not think I will be long with him in any event.



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THE CHAIRMAN: You will be here tomorrow, Mr. Lewis?

MR. LEWIS: Yes, sir.

MR. MAHAFFY: I have a few questions, sir, that I would like to ask Mr. Lewis. I can do it now or in the morning.

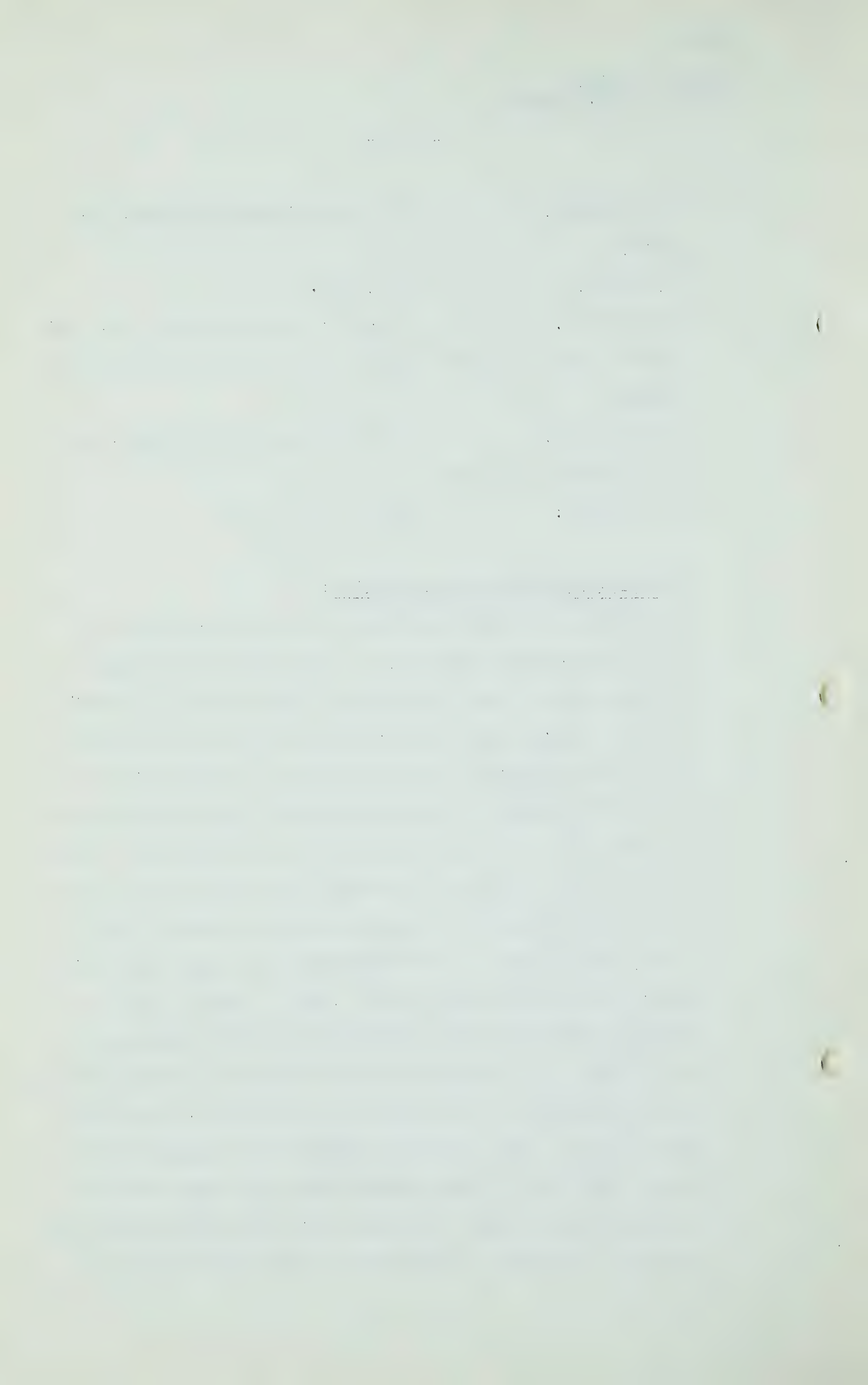
THE CHAIRMAN: We have about half an hour, so that you can do it now.

MR. MAHAFFY: Just as you wish.

CROSS-EXAMINATION BY MR. MAHAFFY:

Q Mr. Lewis, if I understood you correctly yesterday, and also from what you have said in your brief, I gathered that you rather expect that we in the Province of Alberta will be looking for a market for gas in the near future?

A Yes. In my opinion, the search for oil is going to result in the development of gas to the point that in a few years you will have a big surplus of gas, and I think that special concern should be given to the gas from those fields which must almost necessarily be produced at a constant rate. I refer particularly to oil fields where the gas must necessarily be produced with the oil, and if there is not an adequate market for the gas then you may be confronted in the course of a few years with the problem of either shutting in oil production, curtailing oil production, or possibly wasting gas. Now, it might seem that the supposition of such a condition is very remote based upon past years of experience here, but I can assure you that such things have happened elsewhere. It has been a continual problem in



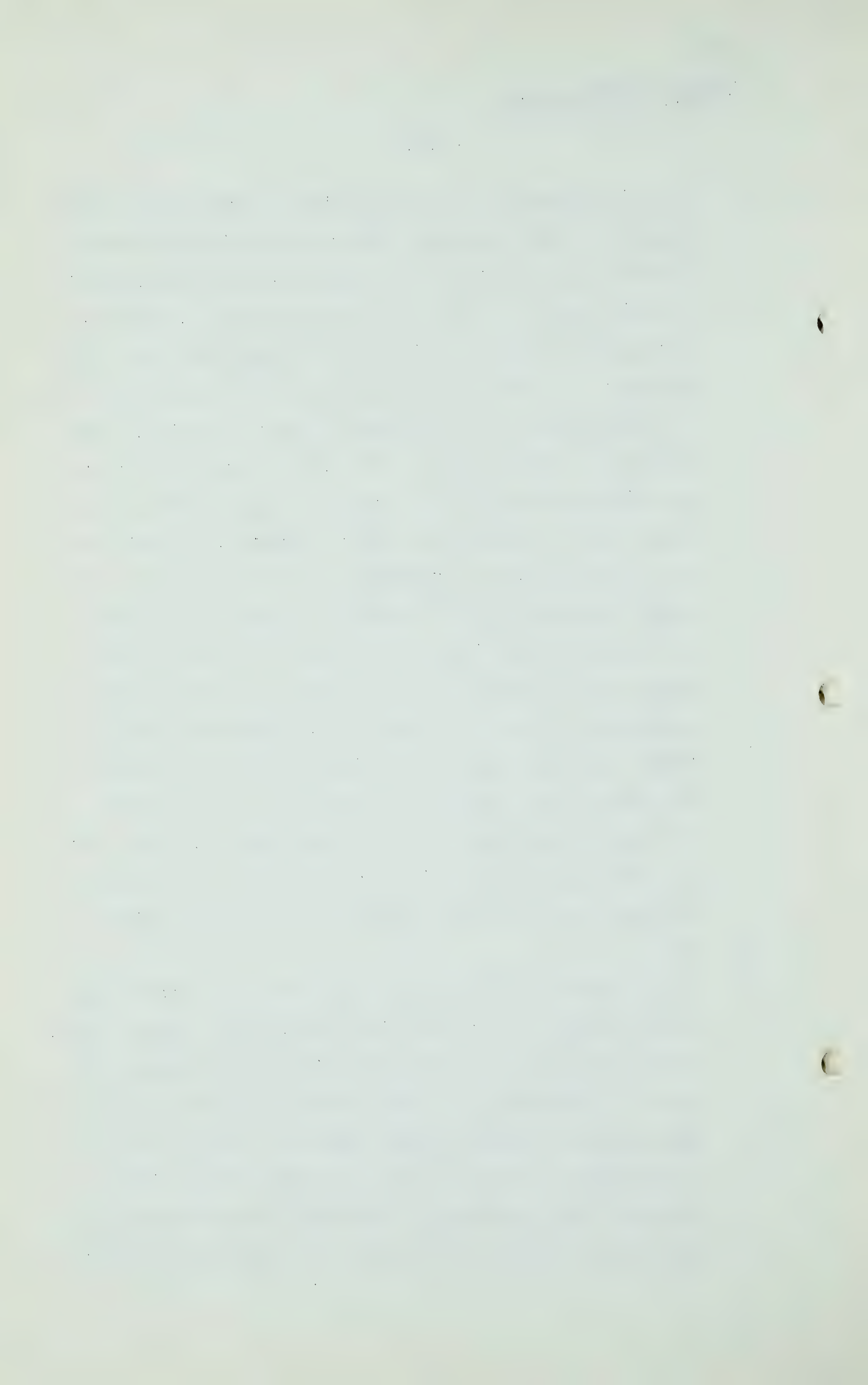
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the oil industry. And when you bear in mind that in less than five years the daily production of oil has increased by more than five times, I think you are just starting in on this period of search for and development in the entirely new province of oil, and I am referring now to the Devonian. You have got to anticipate that large quantities of that gas will be coming year by year. And it is even conceivable that if you do not have an export line that you might even build up a quantity of gas in the course of time, and it is gas which must be marketed, otherwise you will have to have a curtailment of oil production, and it might exceed the local consumption of gas, and it might be beyond the practical disposition of the gas in other ways, that is, some of these fields will not be adapted to putting the gas back into the oil sands from whence it came. That might hurt production instead of helping. On the other hand, you may have a solution by the use of storage in other gas fields, or some other reservoir, but you cannot go on indefinitely pouring gas into it without some day reaching the point that it becomes unfeasible.

Q Yes?

A It is complicated too by the fact that your Foothill Belt fields, while they are not oil fields, except Turner Valley, and you have had your experience with Turner Valley, and it is a problem of not enough market, no place to put the gas, and the economic pressure put upon them to produce such liquids as could be done. You have fields like Pincher Creek and Jumping Pound where, for economic and practical reasons, it is going to be necessary to produce



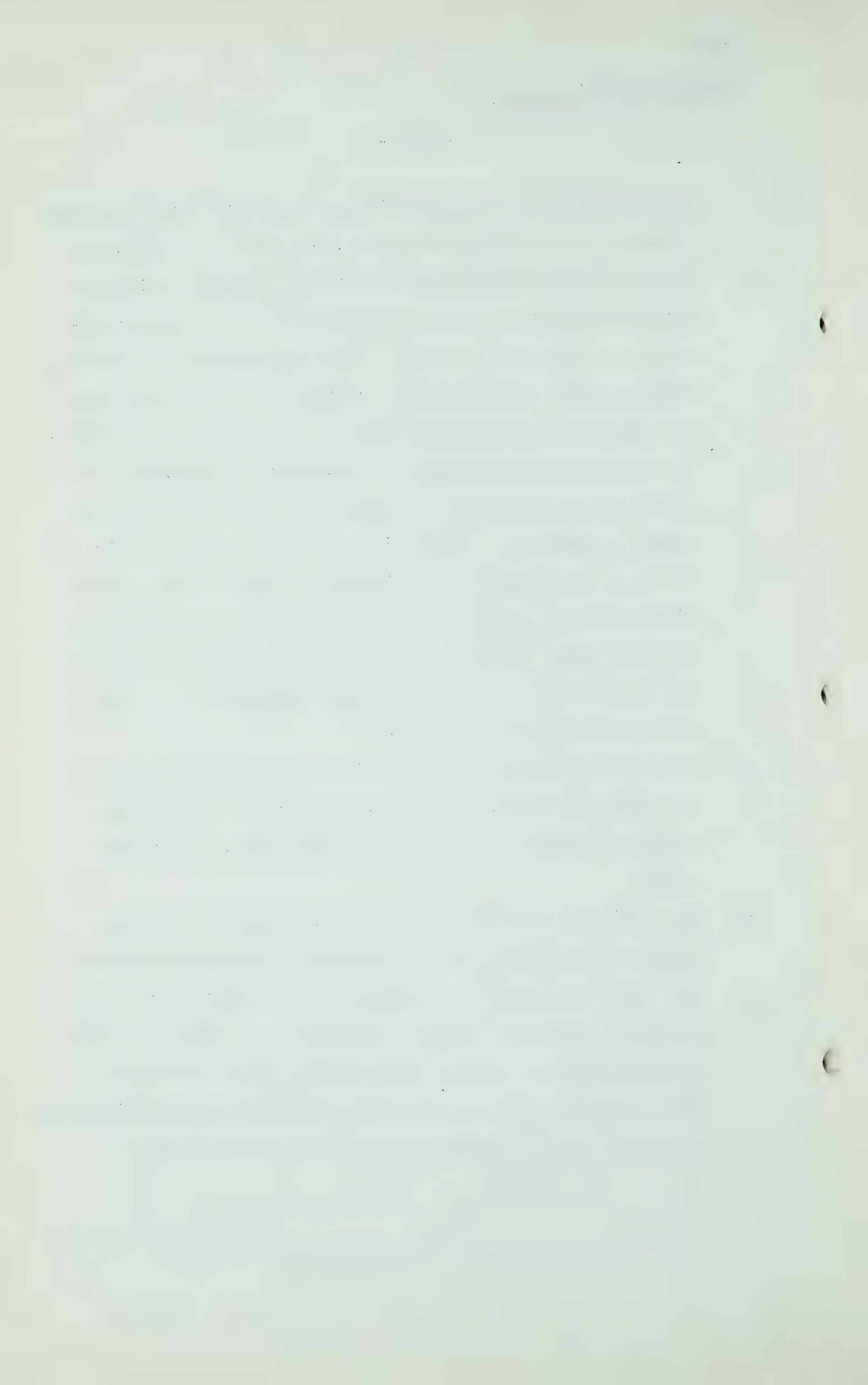
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these fields at a nearly uniform rate. It is not the same reason, the same kind of reason, as your oil fields, but there is such a large investment in a field like Pincher Creek in the way of wells and facilities to handle products at the surface that it is not economically possible to vary the rate of production, certainly not in proportion to the widely fluctuating rates of the market in the Province where you have a very low load factor, and where the winter consumption may be four or five times that of the summer consumption. While it may seem a bit fantastic, if you will look back at the history of some of these other fields which have been in the same stages of development, you will find a time where it did not seem any more fantastic than here, and it was later followed by the conditions which I have stated.

Q Now, having regard to the studies which you have made of our export problem, Mr. Lewis, where would you say the logical, probable and possible markets are, using that term?

A The logical markets are, of course, along the northern border of the United States, from the Great Lakes to the West and in the populated areas of the western part of the Dominion, which are not now served by gas, which would be Saskatchewan and Southern Manitoba to the east in the Dominion, and certain portions of North Dakota and Minnesota which are not now being served in the United States.



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Q Now has Texas exhibited an interest or likely to be interested in these markets?

A I am pretty well familiar with the matter of gas reserves and gas supplies in Texas because my firm has been engaged actively in that province for the last several years. I know they have very large uncommitted reserves in Texas and many billions of cubic feet, probably on the order of 24 or 25 billion cubic feet, that is owned by different companies who heretofore have not chosen to sell the gas.

Q You say 24 or 25 billion?

A On the order of 24 or 25 billion. I should say trillion cubic feet.

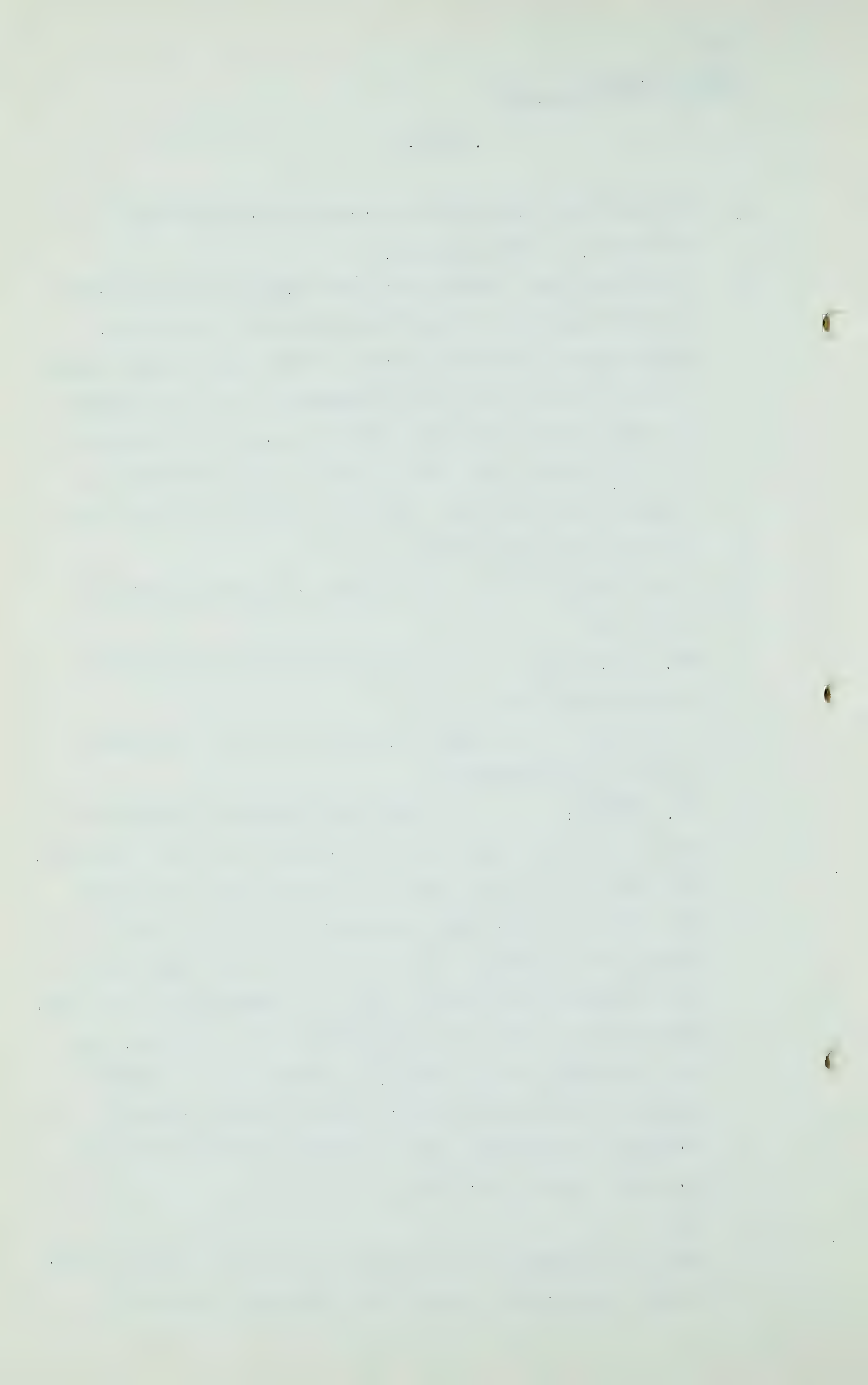
MR. C. E. SMITH: You must have heard the murmur going around here.

A I know that these companies, some of them at least, are actively seeking markets.

Q MR. MAHAFFY: With that background first of all you are going to have to look for export for gas. Secondly, you tell us the places where it would go most likely and also you have your Texas competition in the offing. I would like to give you one or two facts with which you may not be familiar and ask you one or two questions about them. First of all, there is an application in or pending, I am not sure which, to the Board, Mr. Lewis, for the export of gas by my learned friend's client from the Pendant d'Oreille to Montana. You are familiar with the Pendant d'Oreille field aren't you?

A Yes.

Q Also as I understand it my learned friend Mr. Bruce Smith's client, is going to suggest that some gas be taken by



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way of export from the Pincher Creek field into the Texas line. Now in other words there is an application to take some first from the Pendant d'Oreille formation and to take some from Pincher Creek. I wonder if you would tell me whether or not you think any such piecemeal taking of gas for export is going to be in our interests or otherwise?

A If there were no competition for these markets then of course I do not think it would make much difference. You could take these things as they come, but in vi w of the fact that these markets are subject to competition from Texas gas and that you cannot sit down on the assumption they will be waiting there when you think you are going to need them in the future, or at your own pleasure, then it seems to me the Province should try to secure first those largest markets which are most threatened. It seems to me that by reason of the geographical position it is a fact that the Manitoba-Minnesota area is closer to Texas and that that is the most vulnerable market competitively. On the other hand, the Montana market is the least vulnerable and probably could not be reached for your Texas gas. They could not lay a line for that small market unless it was made in conjunction with an offshoot of a line from this proposed line of the Prairie to the Northwest. It would appear that that market could wait competitively, looking at it not from the standpoint of those who have monied interests in the thing, but from the standpoint of the interests of the Province. On the other hand, markets in the Northwest of the country around Puget Sound, that is a very long distance from Texas. My firm made some preliminary figures



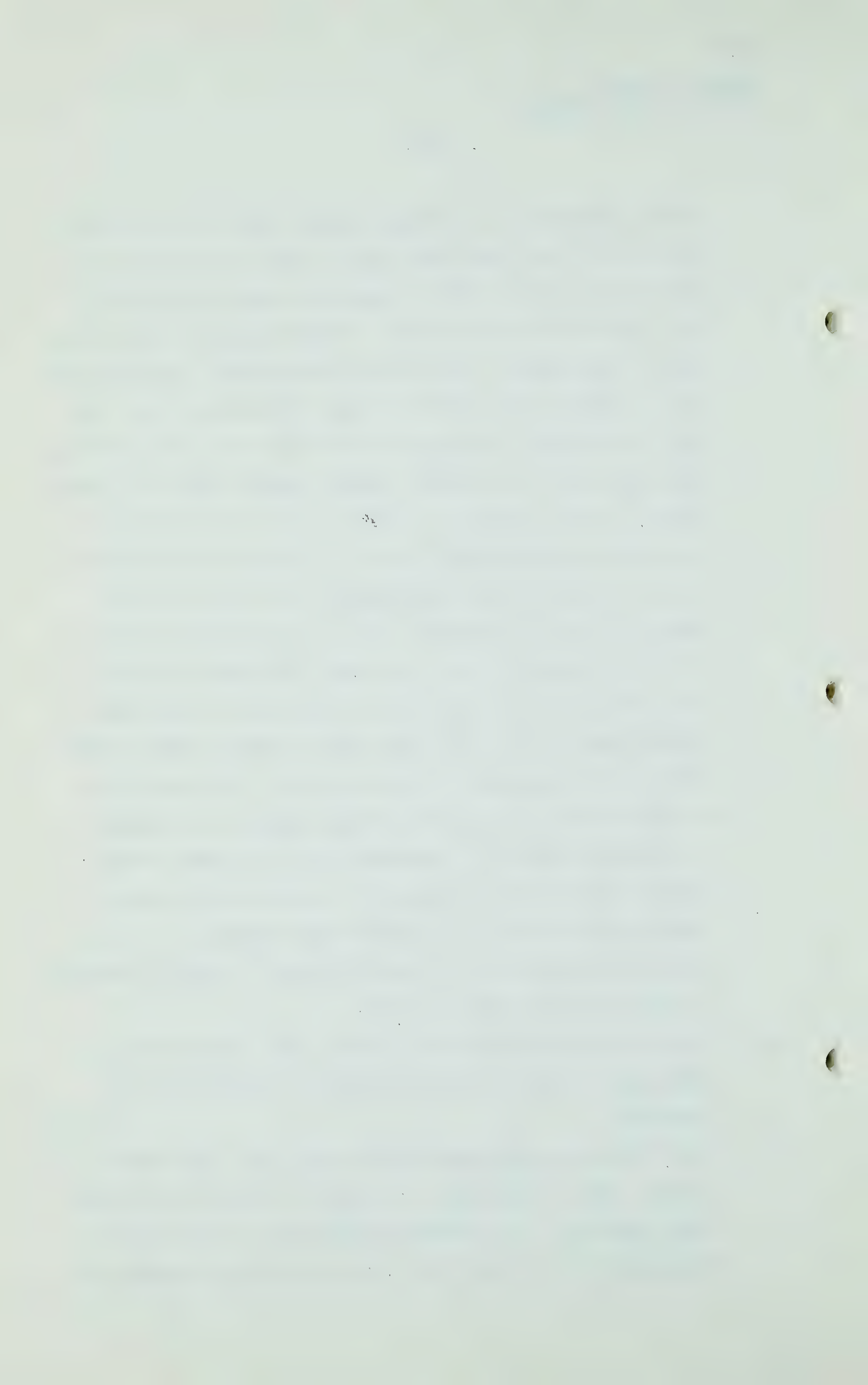
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on the possibility of transporting gas there and so far as we could see you cannot get gas up there and sell it at a price which would be still competitive against fuel oil. That is at \$2.40 for fuel oil in Puget Sound you could sell gas in competition. That is my recollection of the figures, but as recently as a year or so ago the price of fuel oil was considerably less than that and with those lower prices, which may recur, you cannot compete against fuel oil in the market. So it seemed to us that it was an unsafe proposition and we gave up the idea. In those circumstances we can say, unless there is something other than economics injected into the situation, it is a questionable project. For that reason it seems to me that that market is less vulnerable to competition than is the market in Manitoba and Wisconsin. All I have just said in making this statement is as a background to your question. It seems to me in view of the fact that the Montana market particularly is least vulnerable to competition and is a small market, and the need for the Province is to secure these large markets while it can, it would be inadvisable to let those reserves be nibbled off in small chunks. It would be better to secure the big markets first.

Q Have you had any experience in Texas with fields being left high and dry as far as being on an export line is concerned?

A Yes, there are a good many fields down there left high and dry, small fields that in spite of the fact of all the large lines and the tremendous quantities of gas being transported out of the State, there are quite a number of



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small fields which do not have a market although they have been searching for one. I have particularly in mind an area extending through the central part of the State which is known as the Willcox Trend. There are a great many small fields in that Belt, that geological belt, individually they are not of much interest to pipe lines but collectively they amount to a large quantity of gas. Some years ago my firm made a study of that whole area with the object of our client laying a pipe line down through the centre of this belt, which would have made it feasible to gather sufficient of these small quantities of gas, because collectively the expense could be divided among a great many small fields and collectively a practical quantity of gas could be put together. But before my clients got together doing that various companies ran in pipe lines and picked out the favoured spots and now it is impractical to put in a line. Many of those fields have been left and will not be used for years to come. That, while not an exact parallel, is illustrative of the question of the policy of allowing reserves to be nibbled away in small chunks when the need is to secure the larger markets at the earliest possible date.

MR. MAHAFFY: I obviously cannot finish today.

MR. C. E. SMITH: You are saving the \$64.00 question until tomorrow.

MR. S. B. SMITH: May I say for the record by my silence I am not conceding that Mr. Mahaffy correctly states the position and the views of the companies I represent here.

MR. MAHAFFY: I did not hear that remark because of the church bells.

(At this stage the Hearing was adjourned until 9.30 A.M.
September 27th, 1950.)

James O. Lewis,
Op. Ex. by Mr. Mahaffy.

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small fields which do not have a market although they have
been searching for one. I have particularly in mind an
area extending through the central part of the State which
is known as the Wilcox trend. There are a great many
small fields in that belt, that geological belt, individually
they are not of much interest as pipe lines but collectively
they amount to a large quantity of gas. Some years ago
my firm made a study of that whole area with the object of
our client laying a pipe line down through the centre of
this belt, which would have made it feasible to gather
sufficient of these small quantities of gas, because collect-
ively the volume would be divided among a great many small
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be put together. But before my client got together doing
that various companies ran in pipe lines and picked out
the favoured spots and now it is impractical to put in a
line. Many of these fields have been left and will not be
used for years to come. That, while not an exact parallel,
is illustrative of the question of the policy of allowing
reserves to be withheld away in small chunks when one needs
is to secure the larger picture at the earliest possible time.

MR. MAHAFFY: I obviously cannot finish today.
You are saving the \$4.00 question.
MR. J. B. SMITH: May I say for the record by my
affiance I am not conceding that Mr. Mahaffy correctly states
the position and the views of the companies I represent here.
MR. MAHAFFY: I did not hear that remark because
of the church bells.

(At this stage the hearing was adjourned until 9:30 A.M.)

